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Text of Decision, Agreement

954E1132A Moscow ROSSIYSKAYA GAZETA (EKONOMICHESKIY SOYUZ SUPPLEMENT) in Russian 23 Jun 95 p 13

["Resolution on the Draft Agreement for the Creation of an Interstate Currency Committee" and "Agreement on the Creation of an Interstate Currency Committee"]

[FBIS Translated Text]

Resolution on the Draft Agreement for the Creation of an Interstate Currency Committee

The Council of the Heads of Government of the Commonwealth of Independent States **has resolved:**

to approve the Agreement for the Creation of an Interstate Currency Committee, and to submit it for the consideration of the Council of the Heads of State of the Commonwealth of Independent States.

Completed in the city of Minsk in one true copy in the Russian language on 26 May 1995. The true copy is stored at the Executive Secretariat of the Commonwealth of Independent States, which will send a certified copy to each state that signed this Resolution.

Agreement on the Creation of an Interstate Currency Committee

The states participating in the Treaty on the Creation of an Economic Union, hereinafter the Parties,

for the purpose of organizing collaboration in the realm of currency, payment, and credit relations,

guided by the Agreement for the Creation of a Payments Union of the Member Nations of the Commonwealth of Independent States of 21 October 1994,

have agreed to the following:

Article 1

The parties create an Interstate Currency Committee as a standing body of the Payments Union of the member nations of the Commonwealth of Independent States.

Article 2

The Interstate Currency Committee carries out its activities on the basis of the Statute on the International Currency Committee, which is an inalienable part of this Agreement (appended).

Article 3

This Agreement enters into force as of the day of the turnover to a depositary of third notification of the implementation by the parties who have signed it of the internal state procedures necessary for its entry into force.

Completed in the city of Minsk in one true copy in the Russian language on 26 May 1995. The true copy is stored at the Executive Secretariat of the Commonwealth of Independent States, which will send a certified copy to each state that signed this Resolution.

Text of Statute

954E1132B Moscow ROSSIYSKAYA GAZETA (EKONOMICHESKIY SOYUZ SUPPLEMENT) in Russian 23 Jun 95 p 13

["Statute on the Interstate Currency Committee"]

[FBIS Translated Text]

I. General Provisions

1. The Interstate Currency Committee (hereinafter, the MVK) is created for the purpose of assisting the organization of multilateral collaboration in the realm of currency, payments, and credit relations, bringing currency legislation affecting multilateral settlements and credit relations into greater conformity and improving it, and developing the forms and methods of coordinating monetary, credit, and currency policies of the member states of the Commonwealth of Independent States (hereinafter, the states participating in the Agreement), as well as collaboration and joint actions on currency control issues.

The MVK is the working and coordinating body of the Payments Union. The MVK carries out its activities within the limits of the authority voluntarily delegated to it by the states participating in the Agreement.

The MVK is accountable in its activity to the Council of the Heads of State and Council of the Heads of Government of the Commonwealth of Independent States and the Interstate Economic Committee of the Economic Union, and is guided by the Charter of the Commonwealth of Independent States, the Treaty on the Creation of an Economic Union, the resolutions of the Council of the Heads of State and Council of the Heads of Government of the Commonwealth, the Interstate Economic Committee of the Economic Union, and interstate and intergovernmental agreements concluded within the framework of the Commonwealth, as well as this Statute.

II. Basic Guidelines for the Activity and Functions of the MVK

2. The basic guidelines for the activity of the MVK are to assist in:

—the development of economic collaboration of the states participating in the Treaty for the Creation of an Economic Union by means of improvements in currency, payments, and credit relations;

—the provision of uninterrupted transactions under conditions of the mutual convertibility of national currencies;

—the development of a currency market and a market for securities on the territory of each of the states participating in the Agreement;

—the bringing of regulations for state internal trading and currency regulation into greater conformity;

—the coordination of monetary, credit and currency policies;

—the organization of collaboration and coordinated actions on issues of currency controls.

3. The principal functions of the MVK are:

—analysis of the state of currency, payments, and credit relations of the member nations of the Commonwealth of Independent States, and the preparation of proposals for improvements in them;

—the preparation of recommendations for the organization of a full-fledged (liquid) currency market, a market for securities, and the assurance of guaranteed convertibility of the national currencies into the currencies of the other states participating in the Agreement for socially significant nontrading payments on the territory of each state participating in the Agreement;

—the development of coordinated regulations for the formation and functioning of an integral payments system for the states participating in the Agreement, including for exchange (conversion) operations and the purchase (or sale) of currency on hand;

—assistance to interbank coordinating and consultative bodies and authorized commercial banks in the organization of a system of international transactions, and the adoption into international economic circulation of effective means and mechanisms of payment;

—interaction on issues of currency controls;

—coordination of the adoption of advanced information technologies, ensuring their compatibility, and the conversion of banking systems to international standards in the realm of transactions and accounting practices;

—organization of the exchange of experience in currency, financial, credit, and banking operations among the states participating in the Agreement;

—assistance in organizing multilateral scientific collaboration on the currency, financial, credit, and banking problems of interest to the states participating in the Agreement;

—development of proposals to ensure the mutual convertibility of national currencies;

—assistance in the development and incorporation of an integral system of payments among the members nations of the Commonwealth of Independent States, including based on the use of collective currency.

The MVK also performs other functions arising out of the resolutions adopted by the Council of the Heads of State and Council of the Heads of Government of the Independent States and the Interstate Economic Committee of the Economic Union.

4. The MVK, for the realization of its functions:

—prepares and submits to the bodies of the Commonwealth of Independent States draft documents on issues of currency, payment and credit relations requiring a decision by those bodies;

—adopts resolutions of recommendation;

—obtains information from the corresponding bodies of the states participating in the Agreement on the fulfillment of multilateral and bilateral agreements and resolutions of the Council of the Heads of State and Council of the Heads of Government of the Commonwealth on issues that fall under the jurisdiction of the MVK;

—creates working groups where necessary for the preparation of draft documents, and convenes conferences on issues pertaining to the matters under the MVK.

III. Organization of the Work of the MVK

5. The MVK is formed of authorized representatives of the participating states from among the executives of the ministries of finance, central (national) banks and other state bodies. The leader of the delegation of a state to the MVK and his deputy are named by the government of the state participating in the Agreement.

6. The operating procedures of the MVK are approved independently by it.

7. The sessions of the MVK are conducted to the extent necessary, but not less than twice a year, at times and places determined by the MVK.

8. The MVK is headed by a chairman, who is elected from among the heads of delegations. The procedure and terms of chairmanship are determined by the MVK itself in accordance with its operating procedures.

The chairman of the MVK leads the sessions of the MVK, and organizes the work of the MVK between its sessions.

9. The MVK, in coordination with the MEK [Interstate Economic Committee], annually confirms a plan for its work, and determines the procedure and times for the preparation and consideration of issues.

10. The MVK annually submits to the MEK a report on work that has been done and projected measures for the coming year.

11. The functions of a secretariat of the MVK are performed by the department of the Interstate Economic Committee of the Economic Union that manages issues of currency, finance and credit relations.

12. The expenses for trips by the participants in MVK sessions, as well as working groups it creates, are borne by each state participating in the Agreement and sending its representatives to those sessions.

Technical support for the sessions of the MVK, its working groups and conferences is provided by the apparatus of the Interstate Economic Committee of the Economic Union.

13. The MVK collaborates with interstate, intergovernmental, and interbank coordinating and consultative bodies in the realm of currency, payments, and credit relations, and the executives of those bodies take part in the work of the MVK with the right of voice but no vote. The nature and forms of collaboration between the MVK and the indicated bodies are defined by agreements or protocols of agreement.

14. The decisions of the MVK are made:

—by consensus, in the preparation of proposals for the conduct of monetary, credit and currency policy, the development of coordinated regulations for the formation and functioning of an integral payment system, and the bringing of national legislation in the realm of foreign trade and currency regulation into greater conformity;

—by qualified majority (not less than three-quarters of the overall quantity of votes), in the preparation of recommendations to the states participating in the Agreement on other issues falling under the jurisdiction of the MVK;

—by simple majority, on procedural issues.

15. This Statute may be altered or amended by the Council of the Heads of State of the Commonwealth of Independent States at the recommendation of the Council of the Heads of Government of the Commonwealth of Independent States, the Interstate Economic Committee of the Economic Union, and the MVK.

Commentary on Draft Agreement

954E1132C Moscow ROSSIYSKAYA GAZETA (EKONOMICHESKIY SOYUZ SUPPLEMENT) in Russian 23 Jun 95 p 13

[Commentary by Eduard Krustkali, expert of the Ministry of the Russian Federation for Collaboration with the CIS Member Nations]

[FBIS Translated Text] The agreements governing the status and functions of the Interstate Currency Committee could be fully considered an important step on the path of the formation of a realistic payments union. That means that we are actually talking about the creation of sound preconditions for the formation of a unified economic expanse of the Commonwealth.

They have, strictly speaking, been talking about the creation of such an important institution as the Interstate Currency Committee for quite a long time. It is not enough, after all, to put one's own national currencies into circulation, or even to achieve their recognition and stabilization to a certain extent. It was necessary to develop a system of mutual quotas of soft CIS currencies and the principles for their conversion. A number of preliminary steps had moreover already been taken in this regard. Bilateral relations had been concluded by Russia with Belarus, Kazakhstan, and Turkmenistan in particular.

The MVK is now taking its place in the system of guiding bodies of the Commonwealth, being accountable to the Councils of the Heads of State and Government of the CIS. The MVK is guided in its everyday activities by the CIS Charter, the Treaty on the Creation of an Economic Union, and the resolutions of the Interstate Economic Committee.

The principal area of activity of the MVK could be considered assistance in the development of economic collaboration, aimed ultimately at forming a suitable Economic Union of the countries of the Commonwealth.

There is no need to say once again how much the lack of a suitable system of mutual conversions of the new currencies has been complicating the mutual financial transactions of enterprises and the newly independent states as a whole. The coordination of credit and investment policy, interaction in the realm of currency controls, and assistance in the interaction of banking systems and the formation of an integral payments system within the framework of the whole Commonwealth have, for some reason, proven to be simply impossible in this area.

The MVK is a collective and, most likely, conferential body overall, uniting the heads of the ministries of finance and national banks, and it should be establishing the rules of the currency game. The conference functions of the MVK will naturally be signified by one thing alone—any decisions undertaken within the framework of the committee will require approval at the highest levels. Taking into account that the full MVK will evidently not be meeting more often than twice a year, one should not expect rapid "breakthroughs" in many quite complex and delicate topics. Attention should be directed, however, toward the fact that a new level is appearing within the CIS for continuous currency consultations, within the context of which it will be possible to remove problems that arise in gradual fashion.

It is undoubtedly also important that the principal financial people of the Commonwealth countries are obtaining an opportunity to coordinate their own, extremely specific interests and to remove problems, as they say, under standard working procedure. It is no secret, after all, that it is precisely the stances of a number of influential heads of national banks that have called into question agreements that were seemingly reached in advance at the highest levels.

The currency and financial mind of the Commonwealth could also really become a collective one from now on.

One cannot fail to note in this regard, however, that the cumulative experience in the relations of Russia with its sovereign partners can be fully taken into account in the activity of the committee. In other words, as has often happened already in the history of the Commonwealth, bilateral negotiations between the republics in the sphere of currency relations will be further developed. This means that the currency bodies of the Commonwealth will be relying on a quite extensive foundation of treaties and laws. The new currencies, after all, are exceedingly soft, and the procedure for their mutual conversion thus has its difficult aspects.

Such events as the planned institution of full-fledged national currencies in a number of the Commonwealth countries, called upon to replace the ersatz currency coupons that have now played their role, also cannot remain outside the field of view of the MVK. The Ukrainians should be launching their hryvnya in September of this year, and then the time for the long-awaited lari will come in Georgia as well. It must therefore be assumed that the role of Georgia and Ukraine in the MVK will not be all that active at first. After the introduction of their own, more stable currencies, which will evidently be relying on the support of the International Monetary Fund, both Kiev and Tbilisi will be able to display much greater interest in the activity of the MVK. It is obvious, after all, that the strength of the new currencies and their stability will be manifested first and foremost in their correlation to the other soft currencies—and, of course, the ruble. The activity of the MVK, it must moreover be assumed, could help Kiev and Tbilisi to avoid some traditional errors in monetary policy. The example of a number of soft currencies has demonstrated in particular that their exchange rates were excessively high from the start; that could not fail to have an impact in the health of the economies of those states later.

So then, a number of problems could arise with the "unleashing" of the Interstate Currency Union, brought about by the rubbing of the mutual interests of the participating countries and even, simply, the accumulation of the technique of interaction in the currency and financial sphere. A provision on the necessity of bringing the rules for state foreign-trade and currency regulation into greater conformity, after all, is one of the primary areas of activity of the MVK. And the devising of common rules, after all, is largely a pledge of success in the interaction of the Commonwealth countries.

*Declining Trade Among States of Former USSR Seen

954E1126A Moscow IZVESTIYA (FINANSOVYYE IZVESTIYA SUPPLEMENT) in Russian 20 Jun 95 No 42, p 3

[Article by Igor Doronin: "States of the Former USSR Trading Less and Less With One Another"]

[FBIS Translated Text] The establishment of a preferential trade status between Belarus and Russia raises a number of questions today. What will this cost Russia and Belarus? To what extent will the budgets of Russia and Belarus come up short? By how much will the trade turnover volume increase? How will this influence the attainment of equilibrium in trade between Russia and Belarus? There would seem to be no answer to these and other questions, although for both Russia and Belarus problems of financial stabilization stand in the foreground. In Russia's budget, for example, only 67 percent of expected foreign trade revenues were received in first quarter 1995. This is related to the fact that benefits scheduled to be repealed 1 January were extended to 15 May.

A number of other states of the former USSR have shown a more well-considered approach to the idea of creating a customs union. Armenia, for example, estimates that its entry into this union would incur losses of $50 million a year. Other states of the Caucasus region also relate coolly to this idea. Georgia, for example, stands on the threshold of significant monetary reform which should lay the foundation for stability of the exchange rate of the national currency. The question of whether to fix this rigidly to the U.S. dollar is being examined.

The idea is supported by certain states of Central Asia, in particular Turkmenistan and Uzbekistan. Thus, it would seem right now that economic reforms and democratic transformations "have not gotten off the ground" in Turkmenistan. This is the only state within the former USSR that does not have financial relations with the International Monetary Fund. An IMF familiarization mission visiting Turkmenistan declared that the state was sufficiently wealthy to be able itself to deal with its economic and financial problems. Indeed, this state is literally sitting on gold—"black gold" (oil) and "white gold" (cotton). But over the course of the past few years, there has been a continuous decline in oil and gas production and reduced volumes of cotton yield. Uzbekistan is the only state of the former USSR where a rationing system has been in effect since 1990 for the distribution of foodstuffs. In January 1995 an attempt was made to repeal this, but it was reinstated after just one month.

The introduction of preferential trade status among CIS states is hardly capable of resolving their mutual trade problems. Their trade is based not on the presence or absence of privileges, but on production effectiveness and the availability of competitive products which meet world standards and are in demand on the world market. The states of the former USSR themselves understand this full well. They are structuring export-oriented production and the strategy of their foreign economic relations with a view towards the world market.

In the foreign trade of every state of the former USSR, the proportion of states of the far abroad is increasing in both absolute and relative terms, while the proportion and volume attributable to near-abroad partners is being reduced. At the close of 1994, about 60 percent of the CIS foreign trade turnover was attributable to the EEC, United States, Japan, and China. Foreign trade in all the states of the former USSR is seen to be experiencing a re-orientation on markets of the far abroad. Russia's main trading partners in 1994 were Ukraine and Germany (10.5 percent each of Russia's commodity turnover), and Belarus and Great Britain (5 percent each). Kazakhstan occupied eighth place (4 percent).

Ukraine's foreign economic concept envisages a lessening of dependence on imports from Russia (energy primarily)—accounting for 65 percent of Ukraine's imported natural gas and 90 percent of its oil, the development of import substitutions, and reduction of noncritical imports. The export plan calls for strengthening Ukraine's orientation on countries of the far abroad.

Poland's role as a trading partner of Belarus has been increasing. Some 12 percent of the exports of Belarus are attributable to Poland. Foreign economic ties with Germany are also increasing. An appreciable role in Moldova's foreign trade is played by Romania (60 percent of its exports, 28 percent of its imports).

More than half of Azerbaijan's exports are attributable to Iran, more than one-fourth of its imports—to Turkey. Armenia has charted a foreign economic policy course aimed at developing relations with Iran and states of the Near and Middle East, and is relying on the Armenian diaspora in these states. Georgia is also orienting itself on states of the far abroad in its foreign economic relations—Western Europe and the United States.

At the same time that credit relations between the former USSR and Russia have been obstructed by their huge external indebtedness to Russia, their credit relations with international currency and financial organizations and with Western Banks are developing intensively. Currency proceeds will be necessary to pay off these credits. Naturally, this will prompt these states to expand sales in markets of the far abroad. Their policy with respect to attracting foreign investments is also oriented on the far abroad.

Russia's strategic policy regarding states of the near abroad should fully take into account these objective processes. The attractive force of the world's trade and financial market is stronger than any palliative of the variety of a trade or payments union. The system of economic ties, of payments and clearing-operations relations among states of the former USSR cannot be structured differently from that required by world practice. This is in the interest of the commodity producers themselves and that of the states interested in participating in the system of international division of labor and in utilizing their relative competitive advantages on the world market.

From the moment independent states were formed in the territory of the former USSR, the structure of their payments and clearing-operations relations underwent radical changes.

Structure of Settlements in Trade Transactions Among States of the Former USSR (in percent)

	1993	1994	1995 (prediction)
Bilateral interstate barter clearing	50	30	15
Settlements through correspondent accounts in central (national) banks	20	15	5
Settlements in national currencies through correspondent accounts in commercial banks	15	35	55
Barter, clearing, and other forms of noncurrency settlements	10	10	10
Settlements in freely convertible currency, or in national currencies with a currency exchange clause to freely convertible currency	5	10	15

Bilateral interstate barter clearing, settlements through correspondent accounts in central banks, and barter and clearing operations effected directly by the commodity producers are becoming a thing of the past. Predominating today are settlements in national currencies through correspondent accounts in commercial banks. Their propagation provides a basis for consideration of the prospects of forming a payments union.

Russia has signed agreements on measures to ensure mutual convertibility and stabilization of national currencies with the governments and central banks of Belarus (6 January 1995) and Kazakhstan (20 January 1995). Similar draft agreements have been drawn up with Moldova, Kyrgyzstan, Uzbekistan, and Tajikistan.

Although the agreements envisage measures aimed at providing nonresidents access to national currency markets, it is this provision which the national central banks fear most of all, understanding that it is fraught with unforeseen consequences for the stability of national currency markets. And indeed, it is not the problem of a payments union that is troubling many CIS states right now. The central banks of a number of states believe the Russian ruble occupies too much space in their internal payments turnover and interstate settlements. They have been further nudged towards this conclusion by the events of Black Tuesday in October 1994, when as a result of a sharp drop in the ruble exchange rate, many states declared their intention to shift to reciprocal settlements in freely convertible currency.

The policy presently being conducted in all states of the former USSR aimed at achieving financial stability, developing the domestic currency market, and expanding the convertibility of national currencies to freely convertible currencies will objectively facilitate the transition to settlements in freely convertible currency for reciprocal trade and economic dealings. The important thing here is not the shortage or surplus of freely convertible currency in these states, but rather in the degree of development of market relations, the degree of maturity of the domestic financial market.

*Kozyrev Defended From Critique of Foreign Policy

954Q0242A Moscow SEGODNYA in Russian 23 Jun 95 p 9

[Article by Professor Yevgeniy Bazhanov, doctor of historical sciences: "Anyone Can Insult a Diplomat: Any Foreign Policy Concept Is Doomed to Defeat Today"]

[FBIS Translated Text] It is not the practice of SEGODNYA to enter into a polemic with other publications without this being extremely necessary. This, however, is a special case: Professor Bazhanov takes issue with an author of NEZAVISIMAYA GAZETA, which has temporarily ceased publication. Under these circumstances the polemicist deemed it appropriate to offer the article to our newspaper—the only one that has a foreign policy department.

NEZAVISIMAYA GAZETA of 17-18 May of this year carried the article "Russia's Foreign Policy Should Be Presidential," in which the author of the article, Nina Petrova, indicts the Ministry of Foreign Affairs of Russia and Minister Andrey Kozyrev personally for just about all the troubles of the fatherland. It omitted merely to call Russia's diplomats to account for the border conflict between Peru and Bolivia and the escalation of American-Japanese contradictions in the economic sphere.

To Nina Petrova's way of thinking, it would be sufficient to replace the minister of foreign affairs for Russia's foreign policy difficulties to vanish as if by the waving of a magic wand. The talk about the enlargement of NATO would cease, the members of the CIS would immediately unite, the world would start to applaud Moscow for Chechnya, and Russia would immediately be integrated in the economic life of the Asia-Pacific region. I believe, however, that the present difficulties are connected not with the inadequate work of the Ministry of Foreign Affairs but with more serious phenomena—primarily with the changes in Russia's domestic life and their impact (more negative than otherwise) on our state's policy and positions in the world arena.

Let us recall how Russian foreign policy was conceived and what it was like at the frontier of 1991-1992. People of democratic aspirations, who were consumed by a desire to build in Russia as quickly as possible a state based on the rule of law and a flourishing market economy, had come to power in Moscow at that time. The West appeared as a political and ideological ally here. Perfectly naturally, the Western direction crystallized out as the lead direction in the young state's foreign policy. Self-criticism and an acknowledgment of mistakes became one further component of this policy. The new authorities recalled the transgressions of the communist authorities in relation to Yugoslavia, Poland, Hungary, Czechoslovakia, South Korea, Lithuania, Latvia, Estonia, and so forth. This line was entirely logical for the young democracy, which had resolved to break in earnest with the totalitarian past.

Was the policy of the democrats correct? Not in all things, perhaps, but it was an inevitable consequence of the events that occurred on the frontier of 1991-1992. Moscow's original course is at this time being transformed by virtue of internal and external circumstances. Within the country the reforms have simply not yet borne tangible fruit. Consequently, the weakened democrats have been replaced at the helm of state by more conservative people. Their approach to the West is largely traditional, with an admixture of suspicion and envy. These figures are spiritually closer to those who were the comrades in arms of the CPSU Central Committee in the communist era. In the subcortex of their consciousness the present authorities proceed from the fact that Moscow should be in charge of the entire space of the former USSR and East Europe. They are disgusted by the critical interpretation of the foreign policy legacy of the Soviet Union. The commanding stratum, in itself conservative, is being pressured, however, by far murkier forces—arrant Stalinists, chauvinists, and mafiosi. They flat-out reject partnership with the West and with the majority of other countries also, are inciting hatred of foreigners, seeking overseas culprits for all Russia's adversities, and, of course, finding them in the shape of Zionists, the CIA, the Chinese, the Western democracies, Muslims, and so forth.

The domestic crisis—political, economic, social—is a nutrient medium for the ideological division that reigns in Russia. Society is split on fundamental issues of both domestic development and foreign policy orientation. One position amounts to the fact that emphasis in overcoming the crisis needs to be put on the West, for all that—it possesses the technological and financial resources which we need and the key to peace and disarmament. A second position is the direct opposite of the first and proclaims that the West is Russia's traditional enemy. In order to withstand its pressure it is expedient to rely on the East (China) and the South (the Arabs). A third position is that all foreigners are enemies of Russia, and that we should, therefore, once again close the border and take up perimeter defense. Yet others, however, believe that Russia has no adversaries and that it could cooperate with all equally, showing preference for no one. According to this viewpoint, Russia is designed to serve as a Eurasian bridge linking the Western and oriental civilizations.

With this spread of opinions, whatever consummate foreign policy concept were formulated by Russia's diplomats, it would, first, be flat-out rejected, all the same, by this influential political circle or the other of Russia, and second, which is even more important, the concept would not be realized in practice because the separation of powers has with us reached such a level that each branch of power would aspire to pursue its own line in the international arena. Never mind branches! Mutually exclusive currents and streams may be discovered within a branch. It is sufficient to recall the question of the South Kurils, which are claimed by Japan. The president, the prime minister, the Ministry of Foreign Affairs, the minister of defense, the president's press spokesman, and others have spoken equally confidently and precisely on it, but in entirely different keys.

Aside from the internal circumstances, Russia's policy and positions in world affairs are influenced by external factors also. Specifically, the behavior of the West. Russians are acquiring ever increasing grounds for doubting the Western countries' commitment to political-ideological and economic partnership with Moscow. But let us ponder why the West, which was very well disposed toward us even recently, is now cooling and becoming harder. Is it on account of the mistakes of the Russian minister of foreign affairs and his subordinates, whom Nina Petrova simultaneously accuses of both pro-Westernism and "abrupt movements" provoking the West "to Russia's further international isolation"?

Hardly. There is a far more obvious explanation for the change of emphasis in the behavior of the West. It is simply losing faith in Russia's "bright democratic future." Why? Well, if only because the extremist eccentric Zhirinovskiy gained a triumphal victory at the parliamentary elections at the end of 1993, formed a powerful faction in the State Duma, and throughout the subsequent period has with impunity been insulting other peoples and states and showering threats on them. Trust in Russia is declining also on account of the fact that we simply cannot clamber out of the economic and social crisis, that foreign aid is being embezzled by thieves from the machinery of state, that laws in Russia are not working, and that the foreign investor is accorded here what is a hostile reception, virtually. The West is concluding that: a) a country in the throes of a crisis is hardly promising as a stable democracy; b) granting Russia assistance means casting money to the wind; c) developing business relations with it is a risky proposition; d) the number of Zhirinovskiys and Vedenkins in Russia is increasing and that it is necessary to prepare for the possible prospect of their accession to power. As a consequence of these conclusions, the endeavor to enlarge NATO appeared, the readiness to accommodate Moscow's requests and wishes is diminishing, and suspicion of all of its actions—be it in Chechnya, in Iran, or in the Far East—is growing.

Russia's claims to the role of great power are already being perceived differently in the changing political atmosphere. Russian democracy has itself, alas, taught Washington to treat it as a "younger brother." How would we perceive the United States were President Clinton to regularly ask the Kremlin to lend him a helping hand in the struggle against domestic opponents—a Washington Emergency Committee, an antireform Capitol Hill, a rebellious vice president? And were Clinton here to beg for money—for the support of reforms, elimination of the consequences of a drought, assistance to the military. And on top of all this were the White House to invite to the United States a large group of Russian advisers, who began to instruct Americans how they should privatize Washington's postal service, how they should increase the corn crop in the state of Iowa, and how they should wean ordinary Americans away from drinking Coca-Cola.

In the past the Soviet Union itself performed the role of intercessor, donor, and adviser—in Czechoslovakia and China, in Cuba and Angola, and so forth. Relations were built according to the "senior-junior" format. We were the seniors and demanded of the juniors the subordination of their interests to ours. When they slipped out of control and attempted to behave independently, we were incensed and applied sanctions. So the Americans also are astonished at how this "junior partner" of theirs—Russia—took it into its head to agree to sell to the "false" Iranians equipment for nuclear plants, is pursuing some specific goals in the former Yugoslavia, and is demanding preservation for itself of superpower status. The Americans are incensed at our behavior, we, at theirs, as a result of which friction is escalating. It appears most serious in the CIS zone and in East Europe. The national interests of Russia and the United States are clashing, as it were. The main thing, however, lies elsewhere.

The disintegration of the Soviet Union summoned into being 15 independent states, which, although bound to one another by thousands of threads, are simultaneously separated by a myriad of territorial, ethnic, economic, political, and ideological problems. Resolving them will be no easier than those which for centuries agitated and still agitate Europe following the disintegration of the Roman Empire. The situation is obvious with East Europe also—the Czechs, Hungarians, Slovaks, and others have been drawn toward NATO not on account of the blunders of the Russian Ministry of

Foreign Affairs but owing to the growth of extremism in Russia's political life.

What do we need to do, for all that, in the sphere of foreign policy? It is obvious that the policy of rivalry with Washington and of retention of a great-power role is futile. It is fraught with a real expansion of NATO eastward, a deceleration of the processes of integration within the framework of the CIS, Russia's detachment from the main sources of technological and financial resources, and a resumption of military confrontation, in which, alas, we would have no real allies. China would never sacrifice ties to the West for the sake of a "special" alliance with Moscow. And Iran also will hardly become our loyal ally in exchange for nuclear equipment, and even if it wanted to become such, what would the value of such an ally be for satisfaction of the aspirations of the Russian people?

These aspirations are very simple and obvious: the creation for themselves, finally, of a normal life—prosperous, free, and stable. It would, therefore, be unwise to yet again invent a "special Russian way," pushing the nation into slumbering feudalism or bloody communism and fashioning from the West an enemy image. In order that Russian brains not drain to the West and that the Russian at home have a dignified life we need to create in Russia an open market economy and a full-blooded democratic society. And to do this in cooperation with and with the assistance of the West. There is no other way! All peoples without exception that have in recent decades scored success in this field—Japan, South Korea, Singapore, Taiwan, Chile, Turkey, and so forth—have done precisely this.

Accordingly, Russian foreign policy should be subordinated to the accomplishment of the main national task—the building in Russia of a normal human society. For this it is simply essential to rein in our great-power ambitions. The status of a genuinely great power is earned by outstanding achievements in economics, science, technology, culture, democracy, and ideology. We, however, need for a start to overcome the economic crisis, settle the interethnic conflicts, stabilize the political situation, set in motion an efficient development model, and become people content with our own life and proud of our achievements.

Political Issues

*Corrupt Links Between Business, Politics Explored

954Q0240A Moscow IZVESTIYA in Russian
29 Jun 95 p 4

[Article by IZVESTIYA correspondent Valeriy Vyzhutovich: "How Much Does a Place in the Duma Cost"]

[FBIS Translated Text] In November 1993, a place for a businessman on the electoral party list cost 300-450 million rubles [R]. Today, experts assert, entrepreneurs and bankers who wish to experience the excitement of the election race will have to lay out for the right to start in one or another team of politicians an order of magnitude more. But the need to defend their economic interests by political means does not permit the business elite to count the cost.

Asking any Russian Croesus to which party and on what scale he plans to show favor is the same as trying to draw out the most secret details of his intimate life. But the politicians also, in their turn, even under torture will not give you the names of the commercial structures to whose services they have already turned or intend to turn.

Between those who buy themselves deputies and presidents and those who, justifying the funds invested in them, successfully rule, there exists not simply a clandestine, but an extremely strong, and sometimes in the literal sense fatal, connection. One of my informants, very close to the government, told of the major participation of Russian capital in the elections of three presidents in the near abroad. When one of the victors, now in power, just started to think about voluntary retirement, "for reasons of health," visitors immediately came to see him with roughly the following words: "You will sit in this spot for as long as we require you to. Otherwise, just look, anything could happen to you.... An unfortunate accident, for example...."

Also conducive to clandestine deals between politicians and businessmen is a complete lack of control over pre-election expenditures. There exists not a single clear and comprehensive document on that score, aside from the one-and-a-half-year-old letter of instruction of the Central Electoral Commission "On the Monetary Resources of the Electoral Commissions." There is not a word about the financial proprieties to which the parties, blocs, and movements should adhere. Neither has a law on parties, requiring them to publish their budgets, been adopted to this day.

Our Dear Deputy

In autumn 1993, the Party of Economic Freedom estimated its pre-election expenditures on one of its candidates at R20 million. Other parties—approximately the same amount. Since that time, no small amount of water has flowed from the inflationary faucet. But even correcting for the falling ruble can in no way account for the sum necessary today to invest in a competitor for a Duma seat, for the seat itself has gotten more expensive. Its lobbying potential has grown noticeably, and it will grow further, which interested persons in the state apparat, branch bigwigs, bankers, and entrepreneurs know very well—from experience!

According to the most approximate estimates, received from leaders of various parties and blocs, the production cost of a candidate in a majority-based okrug today amounts to R200-250 million. Included in this production cost are expenditures on the collection of signatures, on television and radio air time, on putting out leaflets, on paying the team, on conducting party congresses and conferences, on transportation, on pre-election rallies, street parades, and concerts, and finally, on the overt or disguised bribery of the voters....

A minute of any mention on television's Channel One of a party, bloc, or movement today will cost those thirsting after political exposure, according to confidential information, $30,000, and, of course, without any public fuss. The printing of one leaflet (and, according to estimates, at least 120,000 of them are needed) costs R500-600. To rent the Hall of Columns for a congress costs 40 million a day. And so on throughout all the columns of the all-consuming pre-election estimate.

A novice candidate, who has to be "untwisted," will cost more than an inveterate activist, who has become familiar to people. But it is also still not a fact that a well-known politician involves fewer expenditures: Additional funds may be required to overcome a persistent negative image.

Newspaper publications become a separate article of expenditures. Printed responses to "libel" composed by a political rival (it is unimportant whether by him himself or at his order) will be two or three times more expensive than the "libel" itself.

On the conduct of today's election campaign, a bloc, party, or movement, according to competent estimates, needs no less than $2 million. According to the same estimates, no one has that kind of money.

The False Bottom of the Party Till

A diverting peculiarity of the organization of all party cash-boxes of the Russian model is the false bottom.

The first is completely accessible to the public eye and shows it, as a rule, the modest sums scraped together from the party granaries and cornbins in the form of membership dues, paid lecturing, voluntary contributions of enthusiasts hung up on some idea.... The second, though, hermetically sealed off by the first, holds in its secret shadows much more significant resources, attained by all possible means, some here, some there.

With what kind of monetary baggage do some parties, blocs, and movements set out on the pre-election path?

The Agrarian Party of Russia. The deputy chairman of the APR [Agrarian Party of Russia], Anatoliy Vorontsov, informed me that for the conduct of an election campaign, the agrarians, as they believe, need approximately R2-2.5 billion. "We will use membership dues, and we are also counting on the contributions of various social organizations and movements, private farmer- and peasant-owned farms, agricultural enterprises, and joint-stock companies. Well, and of course we will also turn to banks that share our program goals."

Such banks that would share the ideology and practice of the agrarian lobbyists are practically nonexistent. Bankers are least of all inclined to cooperate with the agricultural sector, which feeds exclusively from the hand of the state. Therefore, the APR's main monetary resource at the elections will be those same budget credits, state grants, and subsidies with which all the agro-cornbins are liberally filled. In the first quarter of this year, when many articles of the budget were financed mainly only to the extent of 47-50 percent, the agrarian Gargantua gobbled up as much as 201 percent. These sums will also be loaded into the election machine, which will be seen to by the heads of oblast administrations of agriculture, the agriculture directorate, and the leadership of all possible agricultural scientific research institutes. It is normal business to add to the scientific booklet "How To Milk Hens" a couple hundred thousand pre-election leaflets, having registered this production as a single printing order (failing to remember the leaflets, naturally).

Investments in the Agrarian Party—the most efficient is the form of investments paid in by the lobbying pressure of Mikhail Lapshin and his Duma comrades-in-arms, who are capable of carving gigantic chunks off the budget. And where do the resources to equip this team in the new campaign for seats come from? Well, from the very same budget sources that nourish today's APR sponsors. This is the rotation of state money, and nothing more.

The Communist Party of the Russian Federation [CPRF]. The Communist Party of Russia, probably, needs hidden sources of election financing less than any of its political competitors. First of all, it does not need to win an electorate—it has a firm and constant one. Second of all, 500,000 members, with their average monthly party dues of R2,000-3,000, guarantee quite a decent sum (in addition, a decision was made: Every Communist is obligated to pay in R5,000 extra, for election needs). Third, it will not have to make major expenditures on election propaganda—its 120 newspapers and bulletins are doing their job as it is. Finally, the party has 20,000 local party organizations and a numberless staff of ideological volunteers, ready on a gratis basis to put up flyers and distribute them from apartment to apartment.

"We will not turn for help to bank and commercial structures; those are not our sources," said Gennadiy Zyuganov in an interview with IZVESTIYA. However, the presence in the Duma Communist faction of the entrepreneur Vladimir Semago, and the still not completely elucidated fate of the CPSU money, which turns the millstones of many commercial mechanisms today, give grounds to think that this party till also has a false bottom.

Russia's Democratic Choice. Yegor Gaydar at a recent Moscow conference of Russia's Democratic Choice [DVR] acknowledged that the party is experiencing great financial difficulties. Having received for the last election campaign $11-12 million (of which no less than a third, as people who know confirm, was simply plundered), what was then Russia's Choice represented a potential "party of power." For which it was shown consideration by the interested financial trustees of the Olbi concern, whose head, Oleg Boyko, became the chairman of the DVR executive committee in July of last year. Already in November, however, Mr. Boyko was, at the party's political council, subjected to impartial, comradely criticism for neglecting political work and "propagating business in the regions with the use of party structures." The war in Chechnya conclusively divorced Olbi from the DVR: Oleg Boyko left the post of chairman of the executive committee, irrevocably binding himself to the government nomenklatura, especially since the expected benefit of Russia's Choice in the role of the "party of power" had not materialized.

"We do not have any funds," I was told by Sergey Yushenkov, a member of the DVR executive committee. "There is not even anything with which to pay the salary of apparat workers. We are now writing an appeal to entrepreneurs; perhaps that will help."

The DVR leaders are not feigning poverty. The party does not have sufficient funds to conduct the elections, and it is evident that it will not have them. As there will also not be enough for the Party of Russian Unity and Accord, which won back the role assigned it by the government and immediately became unattractive for major sponsors.

"Big business bets only on those who have real levers of control," said Irina Khakamada in an interview with IZVESTIYA, "because in Russia power is not yet democratic, but nomenklatura-oligarchical." And Khakamada herself, with her pre-election movement Common Cause, is counting on the support of only mid-sized business: "If anyone does help us, that is from a desire to gamble: What if it works out? I think that the amounts will not be large."

In Khakamada's opinion, neither will Yabloko have a single weighty sponsor—it will also have to gather its fortune together in dribs and drabs.

Big business is today not too much inclined, it seems, to squander its money at the new political vanity fair. The Most-Group, which financed everyone a little bit at the last elections, this time has already announced that it will not support just anyone in off the street.

In a word, big business intends to bet on the "party of power." Ready to render Viktor Chernomyrdin's bloc pre-election services is a consortium of banks that had earlier turned to the government with a proposal to grant the latter a loan for the sum of R9 trillion on the security of the controlling bloc of shares of the largest state enterprises. Several Duma leaders in an open letter to President Yeltsin have already categorically disagreed with the contemplated deal. Sergey Glazyev, for example, detected here "pressure on the country's business circles with the aim of attracting funds for financing this scandalous campaign."

But have not the generals of business miscalculated? And what happens if Russia Is Our Home fails at the elections? After all, that is a change in government—all that money down the drain! "But the business elite is not taking the long view today," I was told by Dmitriy Olshanskiy, director of the Center for Strategic Analysis and Prognosis. "These people live in an unpredictable country, where anything in the world could happen tomorrow—the elections called off, parliament disbanded, a monarchy proclaimed.... That is why it is important to them to get everything done today. One person told me here, 'You have to understand, pal, our logic is simple. You and I come running together, grab what we can, and tomorrow we will run off separately. And that's it!'"

A Competition in a Personal Race

The temptation to make one's own mark in the list of candidates overcomes only certain businessmen. Why not great numbers of them? According to the chairman of the Hermes concern, Valeriy Neverov, "Now the entrepreneurs going into politics are the ones who understand that one has to go into politics." The high pathos of such utterances shrivels instantly even at a cursory inspection of the reasons compelling entrepreneurs to compete for Duma seats. For it is usually a businessman's own commercial failures and setbacks that serve as his genuine enticement into politics. A departure to become a legislator here signifies a departure from payment of partners, a departure from responsibility before swindled shareholders and investors, and, in the final analysis, a departure from prison. Such an impassioned outburst always attends a scandalous conflict with the authorities.

Artem Tarasov entered the State Duma having in his service record the famous ANT case, the Harvest '90 swindle, and the not-too-great success in the Istok cooperative.

Sergey Mavrodi attained his mandate when the MMM pyramid collapsed with a crash.

Konstantin Borovoy twice unsuccessfully stormed the State Duma after the crisis in the Russian Commodities and Raw Materials Exchange and RINAKO [Russian Investment Joint-Stock Company].

Klementyev, the entrepreneur from Nizhniy Novgorod who had a blowup quarrel with Governor Nemtsov, said heatedly, "Possessing a fortune of $20 million, I am obligated to protect it." And he announced that he is creating his own bourgeois party—The Right Bank.

The competition of businessmen in a political personal race is none to the good. It is a compensation for commercial losses with the gain of at least some kind of shares on the stock exchange of politics.

"We Do Not Need Great Leaders"

At the last parliamentary elections, not a single one of the major entrepreneurial structures was ever able to form its own electoral list. And the participation of many businessmen in the elections not as much with capital as with a personal struggle for a seat led business circles to a crushing defeat.

Now everything is more evident: For banking and financial groups, the most reliable way to break into big politics is to support this or that electoral bloc. It is better to support not just one, but several at a time. Thus, the Most-Group in the '93 election race simultaneously financed Pavel Bunich's Party of Democratic Initiative and Grigoriy Yavlinskiy's Yabloko bloc. The Olbi concern, in addition to Russia's Choice, also supported the Party of Economic Freedom and the Consolidation

Party. Whereas the Entrepreneurs for a New Russia movement over two pre-election months managed to change its orientation on then Finance Minister Boris Fedorov to Grigoriy Yavlinskiy, and the latter, in his turn, to Sergey Shakhray and his Party of Russian Unity and Accord.

The well-known principle, "Do not put all your eggs in one basket" will also attend the investment of capital in politics in the upcoming election campaign. With one amendment, perhaps: No one will any longer seriously finance a party based purely on an idea, whatever that idea might be—there is no return on it. Aid to various kinds of "crackpots"—a kind of political patronage of the arts—is a merchant's whimsy, and no more than that.

If radicals of different colors and shades wish to get sponsors for their election campaign, they can count only on representatives of small business, and in rare instances, of mid-sized business, on those not completely satisfied with the distribution of property that has taken place. But those who were able to carve off a solid piece of the privatization pie are above all interested in preserving the status quo, and therefore shun any kind of radicalism. As was noted by Aleksey Golovkov, a deputy to the State Duma and one of the leading builders of Russia Is Our Home: "Today, financially supporting radicals is becoming de mauvais ton. The elite has a different interest. Its representatives understand that with Chernomyrdin, Rybkin, or Yavlinskiy, bargaining is in principle impossible. These people can give, not some minor privileges, but more—guarantee business a normal living environment. The cost is high, but businessmen are prepared to pay this money." Oleg Boyko speaks about the same thing, and just as definitively: "We do not need great leaders; we need a basis of responsibility and healthy conservatism. For this, it is important to avoid any cataclysms."

If big business supports nomenklatura right-centrists and guarantees them victory, it will be a victory for the "party of capital." Or, if you will, the "party of power." Of one party, essentially, whatever you call it.

*Politicians' TV Air Time Compared, Tabulated

954F2716A Moscow ARGUMENTY I FAKTY in Russian Jul 95 No 27, p 2

[Unattributed report under the rubric "Details": "Whom Does Television 'Inflate'?"]

[FBIS Translated Text] In May, television practically launched a pre-election marathon, devoting considerable air time and slots to the parliamentary elections. But which of our politicians do Russian television companies like most? The answer to this question was prepared by the Information Administration of the President of Russia's Staff.

This analysis of television broadcasts did not count the air time of official news broadcasts showing top state officials and other representatives of executive authority. The exception were political figures announcing their candidacies for the 1995 elections.

As seen from the table, there are plenty of peculiarities in the operation of Russian national television companies. For instance, General A. Lebed, an adamant critic of the authorities, was literally a permanent fixture on the pro-government Channel 1. The same goes for Svyatoslav Fedorov and Boris Gromov.

The State Company VGTRK [All-Russia State Television and Radio Company] also provides a forum for critics of the president and the government. Its pace-setters are V. Polevanov and G. Zyuganov. So it appears the opposition should not complain about a dearth of air time.

Aggregate Distribution of Air Time on Information, Commentary, and Informational-Analytical Programs at ORT, VGTRK Russia, and NTV, Made Available to Politicians in May 1995

	ORT	VGTRK Russia	NTV	Total
	(in minutes)	(in minutes)	(in minutes)	(in minutes)
1. A. Solzhenitsyn	130:30	-	-	130:30
2. V. Chernomyrdin	36:11	38:35	47:15	122:01
3. A. Lebed	52:56	3:59	9:43	73:38
4. V. Polevanov	-	62:00	-	62:00
5. Ye. Gaydar	6:32	31:40	20:02	58:14

	ORT	VGTRK Russia	NTV	Total
	(in minutes)	(in minutes)	(in minutes)	(in minutes)
6. I. Rybkin	6:06	36:52	10:48	53:46
7. V. Lysenko	-	46:00	-	46:00
8. S. Fedorov	40:00	-	-	40:00
9. G. Yavlinskiy	14:56	8:01	12:19	35:16
10. M. Lapshin	1:48	9:62	11:46	23:26
11. G. Zyuganov	2:08	13:30	6:07	19:45
12. V. Lukin	1:45	12:00	5:52	19:37
13. S. Kovalev	10:59	2:33	3:30	17:02
14. M. Poltoranin	-	13:43	-	13:43
15. V. Shumeyko	6:48	4:00	2:33	13:21
16. V. Ilyukhin	5:03	1:20	5:19	11:42
21. E. Pamfilova	-	9:30	-	9:30
26. V. Zhirinovskiy	2:34	1:50	2:36	7:00
27. M. Gorbachev	3:10	0:50	2:53	6:53
28. V. Marychev	3:04	-	1:46	4:50
30. Yu. Luzhkov	0:56	1:04	2:41	4:41
31. S. Shakhray	3:20	1:19	-	4:39
33. B. Gromov	4:13	-	-	4:13
34. R. Khasbulatov	-	1:06	1:38	2:44
35. V. Novodvorskaya	2:30	-	-	2:30
36. Yu. Afanasyev	-	-	2:04	2:04
38. Ye. Lakhova	2:02	-	-	2:02
40. S. Glazyev	-	-	1:36	1:36
41. A. Tuleyev	-	-	1:10	1:10
43. V. Anpilov	0:40	-	-	0:40
44. A. Rutskoy	-	-	0:37	0:37
46. S. Govorukhin	-	0:33	-	0:33

Names of politicians are listed selectively

*Viewers Polled on Trust in TV Coverage of Chechnya

954F2716B Moscow ARGUMENTY I FAKTY in Russian Jul 95 No 27, p 8

[Unattributed report under the rubric "Rating"]

[FBIS Translated Text] The first surge of television broadcasters' interest in the Chechnya event faded after the taking of Groznyy. The topic of the "undeclared war" is no longer a lead item in news programs. It has not disappeared, however, and will not disappear until the war itself ends. Therefore the results of the survey, conducted by the New Institute of Sociopsychological Research, deserve attention. Russia's inhabitants were asked to answer the question: Which channels' information on the events in Chechnya do they trust most? Here are the results:

1. "Russia" Channel

"Trust"—55 percent of respondents

"Do not trust"—35 percent
"Do not watch"—10 percent
2. Channel 1 Ostankino—ORT [Public Russian Television]
"Trust"—48 percent
"Do not trust"—44 percent
"Do not watch"—8 percent
3. NTV
"Trust"—31 percent
"Do not trust"—9 percent
"Do not watch"—60 percent
4. "St. Petersburg—Channel 5"
"Trust"—13 percent
"Do not trust"—11 percent
"Do not watch"—76 percent

However, these figures hardly reflect the real "trust distribution," since more than half of the respondents are unable to receive three out of the aforementioned five channels. If we use relative indicators, the result will look differently. Let us assume as 100 percent the number of those who watch a particular channel. In this case, the NTV television company becomes an unquestionable leader—77.5 percent of those who watch "Segodnya" and "Itogi" trust it. "Russia" comes in second with 61 percent; and Channel 1—third with 52 percent. St. Petersburg TV and "2x2" receive an approximately equal rating—about 46 percent of their viewers' trust.

Regional Affairs

*Lukin on History of Russian Terrorism, Budennovsk

954Q0243A Moscow IZVESTIYA in Russian 5 Jul 95 p 3

[Article by Vladimir Lukin, chairman of the State Duma International Affairs Committee: "Terrorism From Kalyayev to Basayev: What the World Thinks Of It"]

[FBIS Translated Text] Terrorism in Russia has a long and frightening history. It became a true Nemesis of the ruling class after the liberation reforms of 1860's.

"Black Redraw," anarchists of every ilk, social-revolutionaries—all impatient champions of accelerated progress turned to bombs and handguns. Explosions went off in the Winter Palace and on southern railroads. Narodnaya Volya in the end achieved its goal, killing the liberator tsar Alexander II at a time when he had practically finished putting together the constitution. The historical price to pay for this murder was a century of anti-reforms which came with Alexander III. And anti-reforms led to the Bolshevik revolution....

This is how for a century and a half we were driving to death the jade of history, and then got poisoned by its ptomaine. Terrorism bred decay, which went under the mask of "stability." Decay bred terrorism.

It is instructive to watch how the enlightened society reacted to the odious public violence. Three kinds of reaction, which identify three groups in society, stand out prominently. The first group cursed the unexpected freedoms and called for revenge, fear of punishment, and discipline. The second group, under cover of outward loyalty, secretly sympathized with the "accelerators of progress." It was members of this group who clamorously rationalized the terrorist Vera Zasulich, and it was they who secretly applauded "executioners of executioners." The third group came to the conclusion that terror of any kind discredits the "cause" and can only breed evil. In the 20th century all three groups had a hard time, but the third one at least retained a sense of moral righteousness and the conviction that the goal does not indeed justify the means.

Terrorism in the form of hostage-taking has become a global-scale phenomenon. The current incentives are especially tempting for a self-sacrificing fanatic: Television with its powerful arm reaches millions of people; love for fellow men cries out, and any concessions seem a trifle compared to the horror of a public mass murder.

Politicians, concerned with their image and the popular reaction, become practically the first hostages of a terrorist. Torn between righteous wrath and stirred love for fellow men, the world community does not see anything except a choice between two possibilities. Either make humanism supreme and consent to concessions (political, material, moral) in order to save the lives of innocent victims—with a secret hope for subsequent retribution. Or the supremacy of practicality: Giving in to a terrorist will only whet his appetite and sharply increase the desire—both his and others'—to repeat the successful experiment, and therefore the best thing is to rely on the time factor, when fatigue, emotional exhaustion, plus the dexterity of special services will provide a chance to free the hostages.

The first instances of mass hostage-taking evoked natural empathy, the desire to buy the lives of innocent victims at nearly any price. Masked people ruled the horrible ball on earth, water, and in the air. But as sad experiences accumulated, the heart became wiser, and the blinding image of undisguised violence began to slowly but surely give way to a more balanced weighing of facts against consequences, today's emotions against tomorrow's threats.

In the end, most governments in the world community began to refuse to meet terrorists' demands. Cruel and heartbreaking as it may be. At the same time, potential targets of hostage-taking set up services that specialize in combating terrorism. Righteous wrath should be expressed first and foremost not in public empathy but in painstaking work, bringing together professional defensive capabilities and technical means made available by our increasingly technologically sophisticated civilization. The most important point, however, is prevention, identifying embryonic terrorism.

The June tragedy of Budennovsk for the first time brought us face to face on a full scale with the task of choosing the road. Tens of millions of television viewers lived through the happening in a most direct way. They appreciated the fact that the prime minister quashed his own pride and negotiated the hostages' release. But everything we saw was the tactics of an isolated incident—huge, but isolated. We need to choose a strategy; otherwise, we will again have to make a decision amidst fire and blood intolerable to normal human perception.

The fateful question: How do we make sure that every potential terrorist knows that regardless of the number of victims he takes hostage, he does not have a lever of influencing the government? There is only one way to achieve this: Inform him and the whole world in advance that the Budennovsk solution, this type of compromise, is unique and will never, under any circumstances, be repeated.

Of course, it is not easy to take this step, but it is better to take it today, after the finale of a bloody tragedy, than tomorrow, when the encouraged terrorist starts looking at the map in search of another object to attack.

From the books of Russian terrorists we know how they rejoiced over the invention of aviation: Just imagine, with one machine you could destroy the Tsarskoye Selo or Petrograd palace. They did not yet know about sarin, ballistic weapons, and nuclear energy. But the main problem remains the same: It is not the nuclear fission formula—it is the old sphere of morality.

According to Boris Savinkov, his childhood friend Ivan Kalyayev dreamed of a time "when all Russia will go up in flames. We will have our own Macedonia." Alas, the terrorist's dream has come true. And the banner of fanaticism in our country did not necessarily remain red. His devils are peeking from every corner of ours. Only one thing remains unchanged: Its foundation will always be adverse to human nature—treating others' lives as a means. It is unimportant what the goal is called: Kalyayev's Republic or Basayev's Ichkeria.

*Political, Economic Situation in Tatarstan Viewed

954F2674A Moscow ROSSIYA in Russian 7-13 Jun 95 No 16, p 6

[Article by Mikhail Birin: "The Reform Khanate"]

[FBIS Translated Text] The brilliance of the attributes of the sovereignization of the Russian autonomies, of which Tatarstan was considered to be the leader until recently, as well as the unqualified authority of the word "sovereignty" itself, has faded somewhat in the republic. The image of disturber of federal tranquility is now out of date in Tatarstan.

The radical parties and movements have quieted down, if not left the political scene altogether. And with them their persistent demand for Tatarstan's separation from Russia.

But this does not mean that the local political elite has at heart abandoned prestigious leadership among the components of the Federation or the design of the entire Federation according to the "bottom to top" principle.

This is occurring against the background of an importunately demonstrated loyalty to Moscow (in vogue here now is the slogan about the universal popularity of the "Tatarstan variant" as a model for principally new mutual relations between a component and the federal center).

The formal thesis concerning the reservation of "work positions" for oneself by employees of the republic political Olympus can be questioned—the upper power echelon has changed somewhat: Vice President Vasiliy Likhachev has become speaker of the local parliament, and the former speaker, Farid Mukhametshin, heads the government, after pretty well reshuffling the department entrusted to him by bringing in people from his own team. But the horizontal change of chairs "at the top" serves rather as an affirmation of the prolongation of the power functions of a narrow circle of persons.

On 5 March elections to a new representative ruling structure—the State Council, replacing the Supreme Soviet—were held in Tatarstan. The democrats and federalists tried to call things by their names in a somewhat more refined way by characterizing this campaign not as elections but as the purposeful formation of legislative authority through the executive authority. The entire mixed opposition, which constituted more than one-third of the old parliament, suffered a crushing defeat—in the 124-seat State Council, the Communists now have four deputies, the Tatarstan National Revival Party Ittifak has one deputy, and the democrat-federalist electoral bloc Equality and Legality has one deputy (a Kazan worker with the rather symbolic name of "Splinter"). On the other hand, the "power party" monopolized its representation: About 80 percent of the deputies are nomenklatura workers. Practically all the heads of rayon and city administrations went to parliament. The reason for such a result was the adoption of the Law on Elections, which is reminiscent of a one-way street. Key amendments to the republic constitution were passed which allowed the elimination of voting according to party lists. Legislative subordination of the electoral commissions to corresponding administrations, and curtailment of the powers of observers who illuminated, in their opinion, brazen juggling in the counting of votes, were also named as determining reasons for the failure of the opposition.

Some analysts come closer to finding the underlying reason for what happened, claiming that "a substantial part of the population of Tatarstan gave its votes to the nomenklatura, rejecting the variant of unbridled Russian-style theft in favor of regulated Tatarstan- style theft." It is also most likely impossible to write off the "Chechen factor," which compelled voters not only to shy away from the radicalism of the nationals, but also to huddle more closely around the contemporary local nomenklatura—in the final analysis the fact that this did not occur on the banks of the Volga during its rule prevails in the everyday understanding of the situation. You cannot wait for a special telephone or increased housing space from a democrat-politician who has been deprived of his mandate authority, but the administrator—he is there, quite accessible, and with all his numerous promises of exactly this sort.

The lion's share of the deputies are now administratively subordinate to the president, and his edicts are equivalent to laws. The opposition has been practically disregarded for five years. The Center is apart from the Kazan Kremlin at a distance of the "Great" treaty, and people are silent out of habit and the need to "work on more real personal problems," so that now it is also possible to turn to practical affairs.

After constructing such a political "roof," it became possible in earnest to break the ice of large and small-scale privatization, which, according to the estimates of independent experts, lags behind Russian privatization in general by two to two and a half years. As a consequence of the regional concept of a "gentle entry into the market," it was frozen, not without the help of social regulation. Now its results have become predictable, and it did not fail to have an effect: The block of state shares of stock of recently "destatized" enterprises which in an economic sense can be of interest will amount to 30-60 percent on average in the republic. The Tatarstan State Committee for Management of State Property is the holder of these shares of stock in behalf of the government—it actively participates in the management of enterprises, mainly in observance of the material interest of the higher executive departments in the redistribution of property and income, where it exists. Oil dollars are first and foremost in mind.

Owing to the right agreed with Russia to use part of the oil produced on its own territory (these quotas are kept a big secret, but according to unofficial data they amount to 40 percent), the opportunity appeared for direct ties between Tatarstan and the far abroad. Especially as this opportunity is legislatively fixed within the scope of the treaty with the Center. According to some data, the highest percentage in budget revenues (26.85 percent) today is provided by foreign economic activity; export deliveries, whose basis, of course, is oil, increased from $433 million in 1992 to $647 million in 1994. Meanwhile, the monopolist producer Tatneft, which became a joint-stock company, was transformed a long time ago, strictly speaking, into a nonstate enterprise.

The acquired economic self-dependence is frequently identified with independent activity. Thus, last year an edict of the president of Tatarstan initiated the creation of a large-scale and long-term program of economic and social progress in the republic through the efforts of local theoreticians and practical workers. The team zealously tackled the task, but did not even get halfway when, after presenting a lecture at Harvard about the republic's successes and problems, its president hired the American Monitor group of the Harvard Business School for the very same purpose. Apparently he is fascinated by its service record. Such imported research naturally will cost the treasury a pretty penny, and noticeably reduces the ardor of the republic team. A January edict of the president approved the creation of a large investment corporation with an authorized capital of close to hundreds of millions of dollars, and an announcement was made in April of the creation of exactly such a company, but with other, mainly American, founders. The former edict was not abolished. On 14 February of this year the Ministry of Agriculture ordered 600 accurate sowing combines for converted Kazan enterprises on instructions of the government. The enterprises (which even include producers of radioelectronics), happy to get any order, are displaying miracles of inventiveness and are flooding their territory with rather good quality sowing machines. But when the calculations are done, it turns out that as a result of a regular business trip the emissary of the government spent money on expensive, but, on the other hand, French combines. The list of such cases could be extended.

These examples were by no means cited out of the maliciously gloating formula "the worse—the better." It seems to be an objective fact that numerous economic decisions are dictated by the resolute decisions of a narrow circle of persons.

The classics of Marxism in their time disclosed the cyclical recurrence of historical processes, formulating the law of the negation of negation. It is possible that Tatarstan is demonstrating a manifestation of this today, withdrawing to a position of almost renewed socialism (considering that all the helmsmen here were prominent figures of this formation). This is not the worst variant of the development of events, inasmuch as one paradoxical question is disturbing: Is Tatarstan not performing as an indicator of the results of the future parliamentary and presidential elections in Russia, which are being predicted poorly?

*Crime Situation in Volgograd Oblast Detailed

954F2679A Volgograd VOLGOGRADSKAYA PRAVDA in Russian 20 May 95 p 2

[Article by N. Stepanov, under the rubric "Difficult Topic": "To Whom Does the Jurist Swear the Oath of Loyalty?"]

[FBIS Translated Text] Many of us register with bitterness these days that life has become harder and more dangerous. Following the runaway rise in prices, a runaway rise in crime began. In 1985, 170 premeditated murders and attempted murders were registered in Volgograd Oblast; in 1994—381. In 1985, there were 286 incidents of grave bodily harm; in 1994, which has just ended—707, 263 of which had a lethal outcome. The number of robberies with extreme violence for mercenary gain increased from 128 to 497, and the number of ordinary robberies—from 633 to 1,852.

Among those to whom people turn with pleas and hopes in search of protection from the avalanche of crime are law enforcement organs jurists. Upon closer look, however, the most observant notice that something strange is happening in the camp of the legal profession, our defenders and saviors. A State Duma deputy reports on television: In 21,000 cases of premeditated murders registered last year, 156 death sentences have been handed down, of which 154 were rescinded by the president. Such a "humane attitude"....

What is the situation in our oblast in this respect? The oblast's first deputy procurator, V.F. Shestopalov, who has worked in the procuracy for more than 30 years and is a highly authoritative jurist in the field of investigation in the law enforcement system, answers this question.

"For the more than 600 human souls extinguished last year, only three murderers were sentenced to capital punishment. But the biblical law of retribution says quite unequivocally: 'An eye for an eye, a tooth for a tooth.' Is this violation of the centuries-old commandments perhaps the cause of the runaway rise in crime?

"In China, for instance, after public executions of rapists, murderers, and robbers, crime declined sharply. In our neighboring Uzbekistan tougher punishment was introduced for theft of personal cars—up to capital punishment—and car theft stopped.

"In our country, however, people's courts hand down a sentence involving incarceration to only one in three persons against whom criminal charges are brought."

The opinion expressed by Vyacheslav Fedotovich Shestopalov unwitting invites the thought: Is there not something else here, in addition to holes in our legislation and the traditionally humane people's court—something imperceptible to an outsider?

This thought also comes to mind when one looks at the unfinished criminal case which received wide coverage in Volgograd Oblast in 1993 and which I became familiar with at the oblast procuracy investigative department.

Masked Robbers

A group of people broke into the apartment of a foreign student enrolled at a local institute. Under threat of torture and a two- barrel sawed-off shotgun, the attackers took $12,000 from the Arab. They all wore masks and communicated with shouts and gestures.

After recovering from the attack, the foreigner reported the incident to the City Administration of Internal Affairs [GUVD].

There is small unit in the Volgograd GUVD which deals with investigating crimes against foreigners and searching for the perpetrators. In June 1993 it was headed by Police Major Rostem Bibartsev, and among his subordinates were Sergey Sirotin, Sergey Stepanov, and Konstantin Piterskiy. They took note of the fact that the robbers wore masks and used unintelligible shouts in their threats. They felt that the attackers were acquaintances of the foreigner or people close to him.

The investigators' pursuit led them to three young people who supplied call girls for the foreigner. The Arab called a telephone number listed in an ad in an oblast youth newspaper and a call girl was brought to his home for two to three hours. After a certain time the pimps picked up the girl and collected "amortization" payment according to a set scale.

Having studied the group of pimps' activities, on 24 June 1993 GUVD officers detained Sidorin, Lazarev, Maksimov, and Rykov on suspicion of robbery with extreme violence. Fingerprints and shoe prints discovered in the Arab's apartment confirmed their involvement in the crime.

The same fingerprints and shoe prints had been discovered in an incident of a similar robbery assault on the apartment of a Kirovskiy Rayon resident and the apartment of an elderly woman brutally tortured to death in Dzerzhinskiy Rayon.

Procuracy investigators were brought into the case.

Investigation Leads to a Gang

Interrogations, confrontations, identification, questioning of victims and witnesses. Experienced detectives and investigators noticed a detail in the suspects' behavior that seemed strange at first glance: It was as if they were in a hurry to go to jail. They nudged the jurists: Get it to court fast, determine the measure of punishment, and be done with it. Was there an intention on the part of the criminals to take to jail with them the secret of a graver crime?

The jurists meticulously studied the activities of the criminal group in the part of their operation as suppliers of call girls for foreigners and wealthy businessmen. They sent inquiries to the city's rayon department asking for information on the young women, directly or indirectly connected to prostitution and listed as missing. It turned out that several were on the search list. Ludmila, the only daughter of husband and wife Ts., had been associated with precisely this firm, whose services were used by the foreign student. The photos of the missing woman were shown to the suspects. It was at this point that they displayed complete disarray. Some maintained that they knew Ludmila Ts. very well and even gave the address where she was brought "after the shift," while the others stubbornly denied even knowing her....

Rykov was the first to "crack": "We killed this girl."

Additional police and procuracy resources were brought into the criminal investigation. The list of suspects under arrest grew to 13. All of them directly or indirectly participated in murders, robberies, and robbery assaults. The jurists were to establish the degree of responsibility of each of the suspects in the crimes. Since the reinforced group of detectives and investigators was "casting the net" wide and deep, previously undiscovered, "dead"" murders and robberies were surfacing. By the end of 1993 one could tell with certainty that an established criminal structure with clearly assigned roles and responsibilities, tightly knit by blood and greed, had been neutralized in the city. Under the belt of this gang—motorized, mobile, armed with sawed-off shotguns, handguns, and explosive devices, audacious and dangerous to the utmost—were six murders.

Aleksey Arkharov, who stood apart from his peers in his reserve and cruelty, at the beginning of 1992 selected for himself a partner in thievery. Together with Oleg Kashirin, he organized a daring apartment burglary. Climbing onto the roof of a high-rise residential building, they tied one end of the rope to the television antenna, and climbed down the other end to the apartment balcony. They sold the stolen goods on the black market through an acquaintance, Zinaida Trishina.

The through-the-balcony-door operation was soon repeated. They left the rope at the crime scene as a calling card.... The criminals purchased a car, expanded the group, and decided to go on to bigger undertakings.

Zinaida, who worked in the building management office, found an apartment of a businessman, with whom she was well acquainted and who trusted her somewhat. The gang planned to rob the apartment by putting to sleep the old woman who was house-sitting for her son while he was traveling abroad.

In the morning, Zinaida Trishina visited the elderly lady for "tea." As they were drinking, she put klofelin in the babushka's tea. But the elderly woman was adapted to this particular pharmaceutical, and did not fall asleep. Zinaida signalled to her accomplices, who were waiting in the car, to go ahead with the robbery. Seeing that the owner was still alive, the robbers strangled her with a belt. They found precious jewelry and foreign currency in the apartment. They moved the old woman's lifeless body to the living room and put it on the sofa, turned on the television set, poured gasoline on the carpeting and furniture, set it on fire, and escaped by car.

Exactly three weeks later they planned an operation of assault and robbery on the apartment of a successful businessman on 8th Air Brigade Street in Dzerzhinskiy Rayon. A woman innocently opened the door one morning and was hit in the face. Shelaputin, who had already taken part in murders, stabbed her several times in the back and heart with a kitchen knife. Again, they got foreign currency and gold.

At this point we need to clarify one small detail. Before getting into the shameless business involving blood, torture, and murder, Arkharov summoned from Novosibirsk an old friend and confederate, the merciless and insolent Sergey Shelaputin. Bayramov, who joined the gang at the very beginning of its formation, began to behave independently and disdainfully. He was joined by Oleg Kashirin, and together they sometimes put themselves at odds with the gang's leader. Then Aleksey Arkharov worked out a plan of reinforcing his own authority by removing the two disobedient accomplices.

One evening, at a meeting, Arkharov's confederates handed down a sentence on the absent ones. In the morning they drove to the hotel—the condemned were not there. They went to the Central Market, where they finally found the doomed gang members. Bayramov had his younger brother with him, and Oleg Kashirin was with Ludmila Ts.

Arkharov and seven accomplices dragged the Bayramov brothers, Oleg, and Ludmila into cars and drove them to the bank of the Volga in the Business Center area. They beat them cruelly and mercilessly for disobedience and dissent, then drove them to a forest belt on the outskirts of the city. Once there, they took the victims out of the cars and torturously slowly killed them one after the other. Aleksey Arkharov supervised the murder. He organized the execution in such a way that each of the gang members had a hand in killing each of the four doomed people.

They calmly took from the murdered people a golden ring, a signet, earrings, and watches.

Lawyer, Who Do You Serve?

More than a year and a half have passed since the day the criminal gang's activities were terminated—that is, since the day Sidorin, Maksimov, and Rykov were arrested. A sufficiently long time to conduct a comprehensive investigation of a criminal case and determine the role of each participant, their guilt, and the punishment sought.

Nevertheless, the investigation of the Arkharov gang criminal case has not been wrapped up and is still a long way from going to court. Some invisible forces kicked in, striving if not to destroy, then at least to get the case entangled in red tape and delay the sentencing indefinitely.

The same is happening in the case of the murder of Police Captain Sergey Korolev, a duty officer in the Staropoltavskiy Rayon OVD [Internal Affairs Department]. The officer was shot with a submachine gun in the line of duty. By morning the killer had been detained, an investigation conducted, and the murderer presented to the oblast court together with a bill of indictment. But....three years have passed, and the measure of punishment still has not been set for the accused. Moreover, people are beginning to forget about it....

Who does Themis serve these days? I posed this question to the oblast's first deputy procurator, V.F. Shestopalov. Vyacheslav Fedotovich is concerned over the practice of unjustifiably long handling of criminal cases developing in the area of jurisprudence. Who organizes the red tape, derailment of court sessions, cases returned for additional investigation?

"In this particular case the Arkharov criminal case is being destroyed by the defense lawyer—a jurist with a higher education and solid professional experience," Shestopalov said. "And this is far from the only case in our practice. The more 'sensational' the case—that is, the more players involved, the more assaults, murders, arson—the more ferocious the fight for the murderers, a desperate attempt to save them from capital punishment."

At this point we should qualify our statement. By and large, the jurists defending the interests of the accused are undoubtedly worthy people, who have not stepped over the line of the permissible, who have not sold their conscience and human dignity for a large fee. But when the accused provides truthful testimony, when the questioning of witnesses and confrontations supports the true state of affairs at the time of commission of the crime, and suddenly after a meeting with his defense attorney the accused changes his testimony, one unwittingly begins to question the "honor of the uniform" of the defense attorney who thus instructs the murderer, robber, or rapist.

There are examples and incontrovertible proof of defense attorneys entering into collusion with their wards, instances when the procuracy has to ask the oblast bar to intervene with such jurists.

One lawyer was recently arrested in Tsentralnyy Rayon for attempting to bribe witnesses able to produce deliberately false—but extremely advantageous for the accused—information.

There is even the following case: The procuracy and the criminal investigations announce a search for especially dangerous criminals, while the attorney gets in touch with them through unknown channels, goes to one of the murderers' wedding, raises a salutary toast, and in the morning solemnly promises to keep him informed of everything related to the search. And on top of this, converses with the gang leader, revealing investigation secrets.

Viktor Leontyevich Sukhov, chief of the oblast procuracy Department for Investigation of Particularly Dangerous Crimes, who took part in our conversation, has long been thinking of creating a Code of Honor of sorts for Russian jurists.

Alas, perestroyka has made undesirable adjustments to the understanding of a jurist's duty and responsibility. Not every one, of course—far from every one—but still....

Three years ago the Criminal Investigations Department came across a third-year law school student who had put together a group of teenagers to engage in criminal craft. Then Criminal Investigations detectives discovered an investigator who was consulting with criminal structures in Krasnoarmeyskiy Rayon. The investigation is complete in the case of a notary public who was formalizing apartment buying and selling deals at initiative of criminals. An analogous criminal group in Volgograd, neutralized by Criminal Investigations, has a jurist among its members. Finally, FSK [Federal Counterintelligence Service] officers together with the oblast procuracy detained a member of the procuracy for bribe- taking.

"What can we use to counteract jurists' slide toward criminalization?" asks Viktor Leontyevich; he answers his own question: "Nothing except a code of moral norms and principles, drafted and accepted by jurists of all branches of the law enforcement system, with the participation of the special educational institutions training jurists and other specialists."

A jurist has opportunities for enrichment like no one else— unlimited. Sukhov cites an example: In this very office where we are talking now, some "clients" are gladly willing to give as a gift or "loan" at least a million in foreign currency for a small concession or lenience toward them on the part of the oblast procuracy's investigative department chief.

I have to say that most jurists today are least infected by the "gold virus." On one hand, the teaching of subjects raising one's civic conscience was quite good in pedagogical and juridical institutions of higher education; on the other, people who enrolled in these schools were frequently not pragmatists but fanatics, oriented from the beginning toward serving the people and the motherland. From a young age they took an oath of loyal service to Justice, Truth, Order, and the Motherland.

What do we do with those who "take the oath" of loyalty to murderers, gangsters, and thieves? We ask experienced and novice jurists from other branches of the law enforcement system, instructors and cadets of the Higher Investigative School, professors and students of the Volga State University law school, judges, entrepreneurs and businessmen, and "new Russians" to speak up on this problem.

We are willing to publish your opinions, even the most unorthodox and perhaps out of line with the classic norms of our society.

*Volgograd Meat Producing Sector in Crisis

954F2678A Volgograd VOLGOGRADSKAYA PRAVDA in Russian 20 May 95 p 2

[Article by V. Maksimov: "Further Down? There Is Nowhere To Go! Notes on the Condition of the Meat Producing Sector"]

[FBIS Translated Text] **The sharp, if not to say catastrophic, decline in the herd of cattle and swine that is being noted on virtually all collective farms of the oblast is striking in three directions at least: First of all, the meat producers themselves, who voluntarily or not are losing amounts of money that are enormous even for these days. Further, the processing industry, which is already beginning to forget what a normal workload is. Well, and in the final analysis, all of us, so-called consumers, who have the opportunity to buy and receive only about half as much meat and meat products now as six or seven years ago.**

But the alarm with respect to the state of affairs in meat cattlebreeding and pigbreeding and the sectors associated with them is growing. And here is one more unpleasant piece of news from the latter: The Volgogradskiy Meat Combine Joint-Stock Company was compelled for financial reasons to reject pork being produced by the Krasnodonskoye Joint-Stock Company of Ilovinskiy Rayon. It is said that both enterprises fell into a very difficult situation....

"Our difficulties are obviously being exaggerated," V.I. Vodyannikov, Krasnodonskoye director, partially refuted the news. "When there is raw material, we will find a place to sell it. The problems of the meat combine, which is left without our pork, are its problems. But we are working...."

Against the background of today's collapse of the meat sector, Krasnodonskoye, as a matter of fact, looks splendid. In four months of this year the farm, which owns almost one-fourth (!) of the oblast's herd of swine, sold, in round numbers, 3,000 tonnes of meat. The average daily incremental weight for the general livestock population was 430 grams, calculating per animal, and on fattening up—570 grams. Practically all the current characteristics of farm activity were higher than last year.

So the Volgogradskiy meat combine owes Krasnodonskoye about 4 million rubles. What is to be done? Continue to give the debtor products? Fine him? Or together with other measures seek other sales markets?

"We mainly took the latter path," recounted Vladimir Ivanovich.

With the help of the Volgograd agro-financial corporation we arranged a normal market sale of pork to the Uryupinskiy, Krasnoyarskiy (Zhirnovskiy Rayon), and Krasnoarmeyskiy meat combines. Our own five stores are now working full swing, supplying meat and meat products from our own meat combine.... Overall Krasnodonskoye is working smoothly, with the technology, and people receive their wages here regularly (incidentally, their wages are high).

How is the meat processing industry of the oblast living and working on the whole? In four months the meat combines, previously called state combines, slaughtered 33,160 head of cattle, and somewhat more pigs. Eight thousand tonnes of meat were produced, of which half went outside the oblast. Should we grieve over this? Well, it would seem we need not. According to the estimates of specialists of the main administration of agriculture and foodstuffs of the oblast administration, at best the oblast used only 1,500 tonnes of the indicated 8,000 tonnes of meat. This is without poultry, of which about 14,000 tonnes of meat were produced in the report period.

We should grieve for another reason. First of all: The average delivery weight of a head of cattle on the whole in the oblast for the four months was in all....322 kilograms. And there is little hope of improving the situation in many rayons—farms started the year 1995 with an already weak foundation. Here are several figures from this category. The cattle population in Svetloyarskiy and Rudnyanskiy Rayons was reduced by more than 29 percent in comparison with 1993, in Florovskiy Rayon—by 26 percent, and in Nekhayevskiy and Kotelnikovskiy Rayons—by 24 percent. The herd of swine in Olkhovskiy, Kletskiy, and a number of other rayons decreased by almost half. The data on sheep are even more alarming.

And the productivity of the livestock?! On the whole in the oblast the average daily animal increment for cattle last year was about 280 grams, and for pigs—193 grams. There were far fewer calves and piglets than a year ago. But where can there be meat that is abundant in quantity and of high quality, and at least relatively cheap; i.e., sold at prices that are acceptable to those on whose backs the burden of the reforms being conducted has fallen?

However, the processing industry is looking with optimism to the near future. Given the demand that has been established for its products now, it is clear that a decrease in the meat herd and its low productivity do not threaten great troubles for it. It is said that there are enough raw material resources until the end of this year. But, if we look a little further into the future?

According to current measures, rural joint-stock companies are complex structures. The same meat production is turned out by farms of different forms of ownership and meat combines. Plus in many cases, if not in a majority of cases, there is an oblast agro-industrial financial corporation. Plus, what is more, trade represents various forms of ownership. Well, more pluses will be found. How can they all be shaped for the benefit of the working people?

The main thing is the interrelationship in the farm—meat combine link. The first, as a rule, is a shareholder of the second. The second is now a relative monopolist, but nevertheless, nevertheless.... Matters are bad, for example, at the Yuropinskiy meat combine, and they are bad because the mutual relations between the shareholders here cannot be regulated in any way—the processors "are pulling the blanket onto themselves." It is the opposite at the Filonovskiy meat combine, only because the shareholders here are equal partners who are equally interested in improving each other's economic indicators. Thus, mutual relations are now a factor greatly influencing overall production.

Nevertheless, meat starts at the farm, and it is up to its collective to correct the slips it has allowed, to raise the sector, and to make its products accessible to the mass consumer. But how are livestock breeders going into the summer, and what are they hoping for?

The main administration of agriculture and foodstuffs of the oblast administration has developed programs for pulling out of the crisis situation in the meat sector. They have been approved by both specialists and science and somehow, at least in the form of a subsidy for produced and sold products, they are being financed from regional and federal budgets. It would seem that the work should at least lead to a stabilization of the production of beef, pork, and lamb. But as can be seen from everything said above, it is necessary for the time being to live essentially in the hope of a better future.

"The fact is that in the years of reform the oblast was deprived of half of the specialized fattening farms, and the rest are working at half capacity," said A.I. Pysin, executive director of the Volgogradskotprom Association.

There was a time in the oblast when there were up to 100,000 head of cattle in the fattening system. Now fattening sites and complexes assemble somewhere around 35,000 animals. Of course, the aforementioned association is not the only avenue—those collective farms that are not members are conducting fattening independently, but this economic-technological freedom ends up, in addition to everything else, with low weight increments and delivery weights of animals.

Indeed, as a rule, by far not everything in the former ordinary sovkhoz-kolkhoz is in order with the fattening organization itself.

Be that as it may, it is necessary to stop the sector's decline. For this, it is a clear matter to any livestock breeder that it is necessary to straighten out the normal maintenance of the herd, first and foremost its feeding. And it would do no harm to remember the old system—the reception and raising of piglets in summer camps, the intensive fattening of young sheep stock in special areas, and also much else that had a big economic effect.

After all, we cannot go down any further.

Stabilization of Oblast Industry Examined

954F2699A Novosibirsk SOVETSKAYA SIBIR in Russian 30 Jun 95 p 2

[Report by A.P. Sychev at Novosibirsk Oblast Soviet of Deputies session; date not given: "On Certain Measures for Stabilization of the Work of Oblast Industry"]

[FBIS Translated Text] Esteemed Comrade Deputies!

Esteemed visitors!

In February of this year 19 managers of industrial enterprises, including V.G. Arkhipov, N.A. Bryuzgin, B.S. Galushchak, A.N. Gorb, B.V. Prilepskiy, A.A. Katayev, V.A. Gushchin, and V.F. Donskikh, who are in charge of the production associations Luch, Oksid, Novosibirskiy Priborostroitelnyy Zavod, Sever, and Sibbiofarm and the Ekran Plant, the artificial fiber and condenser plants, and others appealed to the oblast soviet of deputies and the oblast administration. In the appeal they laid out their demands-proposals, whose implementation, in the opinion of the managers, would make it possible to maintain the operating capacity of the enterprises and preserve the social sphere of the city and the oblast. It was suggested that an extra session of the oblast soviet be created with the participation of the administrations of the oblast and the city of Novosibirsk and the deputies of the city assembly. The materials of the appeal were published in city and oblast newspapers.

As an immediate response to the appeal from the enterprise managers a conference was held in the oblast administration. On 15 February an administration decree was adopted, which formed a council on problems of industry under the leadership of the head of the oblast administration, I.I. Indinok, and support was given to the intentions of the enterprise managers to resume the work of the commission formed in 1994 for preparing proposals for the Government of the Russian Federation concerning stabilization of the socioeconomic situation in the oblast.

The oblast soviet at the session on 15 February 1995 agreed with the administration's actions and delegated for participation in this work Deputies A.I. Belosokhov, A.A. Kiselnikov, K.L. Komarov, and A.A. Stepanov, and they also instructed the committees of the soviet in conjunction with the oblast administration and representatives of the enterprise leaders to prepare and submit for the consideration of the oblast soviet proposals for stabilization of the operation of the oblast's industry. The committee on industry and the production infrastructure headed by Deputy K.L. Komarov was put in charge of the work. This was not subsequently backed up with concrete actions.

The council on problems of industry did not meet and it did not submit any proposals for the session of the oblast soviet. The deputies delegated to be a part of this council were unable to impact this. The first deputy chief of the administration, V.N. Kiselev, did not execute the administration's directive, which he himself had signed and which contained concrete instructions for preparing for the session.

Leaders of the oblast administration rejected the report at the session and limited themselves to presenting reference materials and having certain leaders of structural divisions participate in the preparation of a draft resolution. The committee of the oblast council on industry headed by K.L. Komorov was unable to orient itself correctly in the situation that developed. Assigned as head committee on this problem, for three months it was unable to do anything specific, blaming the lack of the necessary materials.

The appeal of the enterprise managers went unanswered without a proper analysis of the possibility or impossibility of satisfying their specific requests, some of which fell within the jurisdiction of the oblast authorities and some within the jurisdiction of the government.

And the main thing, in spite of the many measures adopted by the oblast administration and other structures during this time segment, was that the situation in oblast industry practically did not change for the better. When speaking about measures that were adopted, I have in mind the regional scientific-practical conference on problems of stabilization in industry, conferences involving the participation of leaders of federal organs, packages of documents concerning the problem under consideration that were adopted by the administration, the resolution of practical problems of a number of enterprises, the end of the lengthy "epic" related to the preparation and signing on 31 May 1995 of the government decree on problems of stabilization of the socioeconomic situation in the oblast.

Certain proposals from managers of enterprises were also left unresolved, for example, those presented by them in the form of six draft decrees of the administration, which were not brought up for consideration.

The economic difficulties of the enterprises and the dissatisfaction of their managers with the reaction from the leaders of the city and oblast to their requests to transfer social, cultural, and domestic facilities in certain cases ended up actually bringing a halt to their discussion and preparations for work under winter conditions.

Taking all this into account, the oblast soviet was forced to return to the question of the need to convene a session and on 26 April adopted a decision to convene it in June of this year. Recommendations were made to the oblast administration, the managers of enterprises, and their social formations for preparing the necessary materials. Unfortunately, practically nothing had been done by the middle of June.

Therefore the group of deputies and apparatus workers, with the participation of managers of enterprises and individual representatives of the administration of the oblast and city, had to quickly find a way out of the situation that was created.

In the work on the report and the draft resolution they used materials submitted by the oblast statistical administration and the managers of a number of enterprises as well as the report on the condition of industry prepared in the administration and materials on measures that had been taken in the oblast previously. In this report I assume it is necessary to give a brief analysis of the state of affairs in industry as a whole as well as at individual enterprises; to draw conclusions, even if they are disturbing; to consider whether or not it is possible to satisfy the request of the managers who made the appeal; to determine what can and should be done through the efforts of the oblast authorities in order to change the situation for the better; and to try to answer the question of what will happen if we do not intervene in the situation that has been created. Here we must not only consider the actual appeal from the managers but also look at the problem as a whole.

I am counting on having participants in the session supplement and concretize the report. I hope they will express themselves regarding the essence of the problem in a balanced, objective, and honest way. And this will contribute to developing an objective decision of the council based on real possibilities and taking into account the interests of all categories of the population of Novosibirsk. And, naturally, taking into account the interests and responsibility of each individual for his work and taking into account the real jurisdiction of each of the parties.

The difficulties and problems in the operation of the oblast's industry are known and felt. There is a continuous reduction of production volumes in physical terms, financial and economic indicators are worsening, and the position of the workers is being exacerbated, which is especially painful because of the constant growth of prices (10-12 percent per month) for everything a person needs.

As compared to the 1991 levels, the volume of production in comparable prices at industrial enterprises of the oblast decreased by 56.5 percent. This was even greater at enterprises of metal processing, the chemical industry, and ferrous metallurgy—from 58 percent to 82 percent. So the optimistic conclusions of certain state figures concerning the end of the production recession and the beginning of a certain stabilization are not being confirmed in our oblast. Indebtedness and nonpayments among enterprises and indebtedness of enterprises on wages are increasing: As of 1 July of this year they amounted to the wage fund of a month and a half. The number of workers is decreasing. During three years the number of people employed in industry decreased by more than 110,000 (31.4 percent) as compared to 1991.

The negative processes stand out most sharply at enterprises of the defense complex.

An analysis of the official statistical reports for 25 enterprises of this complex and also 16 of them which submitted information at the request of the oblast soviet produces a depressing picture.

In 1994 enterprises of the defense complex produced only 43.3 percent of the volume they produced in 1990.

At 19 of the 25 enterprises that were studied the production volume is continuing to decline in the first quarter of 1995 as well. Moreover, at certain of them the reduction has exceeded 50 percent as compared to the first quarter of 1994 (the Kometa Association, the Ekran Plant, and the condenser plant imeni Komintern). At 10 enterprises, although the reduction is not so striking, it still exceeds 25 percent, and that is regarded as catastrophic by world standards.

Since 1993 the enterprises have been "weighed down" by the problem of selling their products. Only one of the 16 enterprises studied was able to sell all the products it produced.

At the plant for semiconductor instruments, sales amounted to only 22 percent of the output, at the NEVZ-Soyuz they were at the level of 50 percent.

Statistics show that a similar situation continued in 1994 and is continuing today. The Sever Association failed to receive payment by the state for its 1993 debt in an amount of 1.7 billion rubles [R]. Now they are suggesting that these losses be written off. But R1.7 billion in 1993 is a considerable amount, it is the authorized capital of a large bank in those days. And this is not being returned to the enterprise. Who will account for the association's losses as a result of unpaid debts? And one can give any number of examples like this.

We have long been aware of the objective assessment of what happened—first, the state left the defense enterprises "broke."

After 1992 the order for military products began to decrease sharply, for which the enterprises were not economically prepared. During the first quarter of 1995 the proportion of defense products in the overall output of enterprises of the defense complex amounted to 14.4 percent, and in terms of the volume of their output produced in 1990—only 6.2 percent. That is what was left for our defense industry! The process of suffocation of the defense industry continued through the immense indebtedness of the clients, with the Ministry of Defense and other state departments most frequently included among them. Thus the indebtedness of clients to the plant imeni Komintern was six times greater than the plant's indebtedness to its suppliers. At the instrument building plant—2.6 times, and at the Vostok Scientific Production Association—almost 16 times. Such a situation with settlements has a direct effect on the revenues and profit of the enterprises and causes a crisis in settlements on wages and with the budget.

Enterprises' profit is decreasing. There is no real profit, since the index of the growth of profit is considerably lower than the index of the growth of prices—both wholesale and consumer.

One cannot but mention the fact that the system of taxation that has developed over the past few years has become an additional source of pressure on the enterprises, mainly the large ones that are former state enterprises. Here neither the production volumes nor the revenues are concealed, as is frequently the case in commercial structures and in the sphere of uncontrolled trade.

Statistical analyses show that in fact the financial condition of the enterprises is not coordinated with the growth of their tax payments. In all enterprises there is a colossal disparity between the growth rates of tax payments, on the one hand, and the growth rates of revenues and profit, on the other.

The mechanism for collecting property taxes is especially ill- considered with respect to defense enterprises. They are capital- intensive, and the capital-intensiveness has increased as a result of the significant increase in the cost of equipment resulting from revaluations. The output of products is decreasing, the output- capital ratio and profit are dropping, but the property tax is increasing, and its proportion of the profit is increasing as well.

The actual indicator of the output-capital ratio in various enterprises varies considerably and, consequently, the property tax has varying degrees of impact on the financial condition of the enterprises. It is necessary to seek a solution to this problem.

The hopelessness of the reforms that are being conducted is shown also by the fact that the number of enterprises operating at a loss in the defense complex continues to grow and at the profitable ones the level of profitability is declining. The reason for this is that the cost of production is increasing more rapidly than the value of the products because of the growth of prices of energy and other resources which exceeds the growth of wholesale prices for products of enterprises of the defense complex. In 1994 the number of enterprises where the production cost was higher than the value of the products in wholesale prices amounted to 32 percent of the overall number of enterprises (in 1992 this figure was 16 percent).

The growth of the financial crisis has led to a situation where the enterprises are no longer able to maintain the sociocultural sphere, the costs of which are constantly increasing. At certain enterprises they exceed profit by a factor of three and more—up to a factor of 20. This problem is critical, and to a certain degree unsolvable. For even if the sociocultural sphere were completely removed from the balance sheets of the enterprises, this could not be regarded as progress but only as inevitability. The more so since many possibilities of the collectives, the attractiveness of the enterprises, and their ability to solve many problems of the collectives through their own means would be lost.

One cannot but mention the fact that during all the years of active transformations (1992-1995) the disparity between wages at defense enterprises and the average throughout industry has increased. In 1994 the average wage in defense was R156,400, while the average for industry was R190,000. And the disparity between this and the level in transportation, communications, and the banking system is expressed by larger factors (more than a factor of three according to official figures). At all 16 enterprises that submitted reports to us, the growth of the average wage during 1994 was 1.5 to two times less than the growth of consumer prices.

It was this tendency that generated such a critical social problem as the reduction of the number of workers. As compared to 1990 the number of workers in defense decreased by 42.5 percent, and in 1994 alone this figure was 23,200. And during the first quarter of 1995—11,500, that is, half of last year's indicator. According to data from the Novosibirsk employment center, in our oblast, as in the West Siberian region as a whole, there is a higher growth rate of unemployed since among them almost 70 percent are discharged from industrial enterprises.

We must not fail to pay attention to the possible rapid growth of unemployment in the future, since at many enterprises where the volume of output is already only 15-20 percent of the 1990 volume, the number of workers has remained at the level of up to 70 percent of that same 1990 figure. This cannot go on forever.

And with this negative situation, which is presented only in generalized form, the industrial enterprises are left as the main payers of taxes into the budget—both federal and territorial. Their share amounts to more than two-thirds of the budget revenues. They have increased three- to fourfold during the past year, while the financing of conversion, for instance, according to the latest data, has decreased and amounted to 98.8 percent of the amount in the first quarter of 1994. There has been a significant—sixfold— reduction of the amount of attracted funds, mainly credit. And although the total of internal funds has increased by a factor of 2.7, they are clearly inadequate for the enterprises' activity.

For the sake of objectivity one must say that the enterprises themselves and above all their managers have not always evaluated the situation correctly, taking the real changes into account, and they have not selected the correct forms and methods of activity or been able to orient themselves. They have not always utilized the means and possibilities available to them in an economically justified way—they have created joint-stock structures and cooperatives and taken out some of the funds and invested them in banks, including by founding them, and subsequently they received little support from them. That is, funds were disbursed in a critical situation. This must be admitted. It must also be admitted that they have not always persistently looked for a way out of the situation that was created, mainly through their own forces, and they have hoped for too much support. All this is true, but the "blow" sustained by the enterprises from the state policy (price, tax, conversion) was incomparably stronger and more destructive.

Evaluating the position of enterprises of the defense complex and the factors that caused it, we must recognize that the state policy, if it can be called that, worked for the destruction of this complex by all methods—a distorted conversion policy, the system of settlements, the complete departure from the necessary regulation of prices of energy and raw material resources, and the antiproduction system of taxation. In this situation the question is predictable: Do we even have a military-industrial complex in the true understanding of it? Who will protect Russia in the situation of further aggravation of problems on a world scale, and with what?

Do Russia's present security and our confidence in it correspond to the true situation in which the defense industry finds itself? The answers to these questions are largely apparent.

The situation at defense enterprises is largely determined by the condition of industry and all production in the oblast as well as the oblast's position among other territories. For comparison we have analyzed certain indicators of the operation of industry with territories that are comparable from our viewpoint—Novosibirsk, Omsk, Irkutsk, Samara, and Nizhniy Novgorod Oblasts and Altay and Krasnoyarsk Krays. I will report certain conclusions to you.

First of all about the level of taxation. According to available information the "tax background," that is, the amount of the tax rates, is fairly homogeneous and extremely high. True, a number of oblasts actively utilize mechanisms for granting targeted tax rebates and benefits to branches, groups of enterprises, and even groups of financial institutions if they invest in industry. So far we do not have such a reliably tested and adjusted mechanism.

In terms of the rates of decline of industrial production, Novosibirsk Oblast holds a leading position among those mentioned, following only Altay Kray and exceeding the average Russian indicators. In terms of profit received in the economy, our oblast lags significantly behind all comparable territories except for Altay Kray.

It is interesting to do a comparison of incomes and consumer costs per capita. In our oblast these indicators are almost equal (in March of this year R278,900 and R256,900, respectively). On other comparable territories incomes exceed costs, that is, there is a certain possibility of savings, and this means that there can also be sources of investment.

If one keeps track of the average wages of workers in the oblast, in 1985 we had higher wages than other oblasts, and in 1993 they were lower than the average for Russia and almost the lowest in the Western Siberian region with the exception of Altay Kray. And as of today there have been no significant changes. Nor can we take consolation in the fact that the absolute amount by which wages exceed the subsistence minimum, say, in Novosibirsk and Omsk Oblasts and Altay Kray, which characterizes people's actual possibilities of living, is insignificant. Based on the above, one must draw certain conclusions from which it is possible to determine the direction and nature of subsequent actions.

1. Industry in the oblast, and especially defense enterprises, has approached the last frontier: There is a real threat not only of mass bankruptcy but also of physical liquidation of a number of enterprises that are important to the country's national economic complex, regardless of their forms of ownership. Production capacities and fixed capital are being destroyed and unique technologies are perishing. In spite of everything, as was already said, up to this point it has still been industrial enterprises that have provided for a large part of the revenues for the oblast budget.

2. The oblast is in a more difficult position than other regions. Because of economic and other peculiarities of Novosibirsk Oblast, the decline of industrial production has had an especially strong impact on the standard of living of our population as compared to other territories. The shut-down of industrial production brings the threat of the most powerful social upheaval and of its irreversibility.

3. Specific actions taken previously by the administrations of the oblast and Novosibirsk have not provided a radical solution to the problem of preserving and stabilizing the oblast's industry. We need additional concrete measures of support, above all from the government. Some of them have been laid out in Government Decree No. 534 of 31 May 1995. But everyone should be prepared for the fact that their implementation will require many concrete steps, efforts, and persistence on the part of oblast authorities, scientific institutions, and enterprise managers.

Evaluating the situation realistically, one must say that we cannot count on the necessary support from the center. Our own efforts are needed as well as the search for and utilization of reserves of our own enterprise, rayon, city, and oblast. Without this we will not achieve anything positive.

In spite of the extreme difficulties, we cannot consider the situation that has developed to be hopeless. We are looking for a way out. As is proper, it is mainly enterprise managers who are looking. As follows from the materials prepared for the session, new products are being assimilated at practically all enterprises, even if it is with a great deal of difficulty. During 1992-1994 the instrument building plant assimilated 15 new items, the Ekran Plant—five items, and Sibselnash—12 items. The aviation association imeni Chkalov has assimilated a new military aircraft and the new AN-38 civilian aircraft. Three new areas of production have been assimilated at the plant for radio parts. Extremely necessary pharmaceutical preparations have been developed— tserebralizin (at the artificial fiber plant) and streptomycin (at Sibbiofarm). It is noteworthy that this work is being done with their own funds; the proportion of attracted funds is small and is decreasing all the time. But somehow the money is found. But the scale of these costs can in no way compare to the costs, say, of maintaining the mobilization capacities of facilities of the social sphere or providing for tax payments. Taking these into account, the enterprises will not be able to escape from the existing impasse with their own efforts and resources alone. Additional investments are needed. And the enterprises are requesting them from the government and administration of the oblast. The demands laid out in the February appeal from the managers as well as the proposals developed by participants in the conference of the League for Contributing to Defense Enterprises and their board of directors in April of this year pertain to changing the tax system, granting tax benefits, and making reimbursements for costs of maintaining the social sphere, above all housing. As we can see, they amount to reducing the revenue side and increasing the expenditure side of the budget and taking the social sphere into the budget. Calculations conducted by the administration's financial department for just 19 of the enterprises that signed the appeal show that approximately R63 billion in costs go for reducing taxes and R181 billion for maintaining housing.

How can we respond to these requests, what specifically can be done? Above all, regarding financial support?

Of course, the sum of R63 billion can be evaluated in various ways. On the one hand it is 4 percent of the oblast budget and 2 percent of the consolidated budget. On the other hand, at these enterprises there are hundreds of thousands of workers, and is this such a great price even if all it does is retain their jobs? And if one takes into account that the enterprises largely form the budget, one can also put the question this way: Is allotting these funds to the enterprises a sacrifice for us or is it the funds of these same enterprises that they have put into the budget in excess of their real capabilities which are returned to them under certain conditions and for specific purposes? These reflections are a search for the correct answer to a specific situation. Today we must find this answer.

Here it is necessary to keep in mind that while taking the funds out of the budget, we are investing them in something concrete, in existing production, from where the invested ruble can and should return to the budget and, possibly, return with profit. So in this case this is not simply withdrawal from the budget....of course, these funds must be granted to a specific enterprise and for specific purposes, including with the right to control their utilization.

I think that we will make this decision today, and above all with respect to defense enterprises.

Something else is also important. All these enterprises were and are federal property. The financial administration and the GlavPEU that was formed should have figured out and given an in-depth fundamental analytical assessment of the interrelations between federal enterprises and the federal budget. How advantageous are the financial relations between these enterprises and the state? What do they (the enterprises) provide and what do they receive as support from society? The results of this analysis should be used for a practical solution to the problems that exist.

The practice of past years shows that with the general lack of money and mutual debts it is extremely important to create whatever reserve is possible, which can be used in the most important areas. Precisely a reserve and not another fund involving staff workers and unnecessary costs. In our case one of the areas for investment of the funds formed this way could be industry. From whom could we get the funds for the reserve, and how? We must think and work seriously on this. The actual sources could be:

—deductions from enterprises of all spheres with all forms of ownership in the form, for example, of a temporary additional tax used for the development of industry;

—deductions of authorized banks from profit for deposits of budget funds and money from nonbudget funds;

—the participation of banks in granting credit for the enterprises that are now their founders or stockholders in the form of credit and loans with low interest or no interest (even if this is only a short-term measure);

—deductions from the industrial enterprises themselves, if there is a possibility of this, naturally.

Moreover the funds must be concentrated in one bank so as not to be dispersed, and we will have the greatest effect from keeping them in the bank and the greatest maneuverability in the utilization of these funds.

As we know, the Law on the Budget for 1995 includes a line— oblast reserve fund. There are predictable questions: How much is to be given out from this fund, how, and to whom? There are no regulations regarding this and we should have them. Without them, support could go primarily to the one that is the most persistent, the one that is closest to the giver, or the most cunning. During five months of this year, according to approximate calculations, R27 billion has been disbursed from this fund. Among these expenditures are some that are undoubtedly extremely necessary: On 19 May Novosibirsksnabsbyt was granted a loan of R550 million to purchase goods. On 23 May a loan was granted until December 1995 in the amount of R3 billion to the joint-stock company ABC-Development. Unfortunately, there are more examples like this. I do not want to be condescending, but the managers who were given the right to organize the utilization of budget funds must approach this with more responsibility. And the control on the part of the committees of the soviet and the oblast soviet as a whole must be more effective. Control must be increased in other areas as well. In the press and elsewhere a great deal is being said about the shortcomings in the privatization of the largest and richest enterprise of the oblast—the lead combine. They are also discussing the fact that its capabilities of providing financial support for the oblast and the oblast center are far from being fully utilized, even though its contribution to the budget is significant. But objectively it could be greater. It could be, but for various reasons it has not been.

The oblast accounting office should be one of the means of improving control over the utilization of budget funds. Committees of the oblast soviet must accelerate the development of the draft law "On the Accounting Office of Novosibirsk Oblast." And the soviet must adopt this law and choose worthy people to execute it.

If the situation at defense enterprises is regarded as one of the collapsing bridges (as we frequently express it), it should be possible to take something from the reserves to restore it.

Taking into account the fact that defense is needed by both left and right, both rich and poor, and these enterprises have no support "from above," we must look for resources here, locally. It is possible to find them on the basis of a real assessment of our capabilities and showing specific interest. We have something to find and we have somewhere to find it.

Here is one example. During three months of this year foreign investments in Novosibirsk Oblast from abroad amounted to $3.1 million and R31 billion. The main investors were the Latvian Republic and Great Britain. The recipients were 110 joint ventures and seven foreign enterprises. This is one side of the coin.

During this same time $925 million went out of the oblast (300 times more than was received) as well as R2.7 billion, and 84.4 percent of the investment dollars was received by the United States, and 100 percent of the rubles—by Kazakhstan.

A large part of the dollar funds went out through accounts of commercial banks: Siberian trade, Vneshtorgbank, the Siberian Bank. A certain amount went out through joint ventures. That is where the funds are! After all, $925 million is R4.5 trillion. And many industrial enterprises, including defense enterprises, join banks as founders. The bankers should take this money and share it with the industrial workers and not send everything abroad.

There is also another reserve. Free residual nonbudget funds. And they are considerable. They should be gathered together in one reliable bank so they do not "burn" like the social protection fund in the Belonfinbank. Understandably, this is not a simple matter, and perhaps even the legislative base is inadequate. But now we have an opportunity to adopt our own laws. Submit reasonable proposals. I will appeal to those who have the right to legislative initiative, and there are people who will work on this.

One more area. Targeted tax investment credit. In many oblasts— Kirov, Sverdlovsk, Samara—individual branches and categories of industrial enterprises have introduced exemptions on the profit tax and the property tax. And not just that, but with a simultaneous introduction of a mechanism for controlling the utilization of the released funds for a specific purpose. Another approach is also interesting: If the banks and insurance organizations invest funds in industry and long-term credit for industrial enterprises, they too have tax benefits. These measures provide for a favorable investment climate on the territory and impede the outflow of capital. There is also something for the state tax inspectorate, the tax police, law enforcement organs, and all branches of power in the oblast to think about, and they should join forces.

Taking into account the situation and the proposals for managers of enterprises and based on Government Decree No. 534 (point 11—on repayment of indebtedness on the state defense order), it is necessary to prepare proposals for the Government of Russia concerning indexation of this indebtedness. It is also necessary to exert efforts to achieve the formation of the state defense order for 1995 and the draft order for 1996 in the shortest period of time and to remove from the managers and collectives of the enterprises the burden of uncertainty and give them an opportunity to work on something concrete.

The possibility of taking such a path to supporting the enterprises as the oblast and municipal orders for the production of products that can be used by the population requires careful development both on the part of organs of power of the oblast and the city of Novosibirsk and on the part of the enterprises.

What do I have in mind? Some people have their doubts: Will the goods that are produced be sold or will these funds be frozen? Well, ask the trade workers and they will tell you that many simple and necessary goods are being shipped into the oblast from outside and for certain things we have to go to our neighbors. And yet they could be produced at our enterprises. I understand that this is not a simple matter, including for the enterprises themselves, which have the wrong types of cadres. But we are speaking about an extreme situation, about survival. So give it all you have, esteemed enterprise managers. In many matters you yourselves are responsible and in many things you cannot be replaced. And the administrations need support from the enterprises in this matter.

Specialists assert that unless the products of our enterprises are placed on the world market, it will be very difficult to count on improvement of the situation or stabilization of the work of industry. How to do this—we have examples and also possibilities. We must have specific people in the administration and at the enterprises who, along with scientists and specialists (who know the world market) would solve these problems, even if they do it slowly, as long as they do it steadily.

It is also necessary to search for new forms of control of processes in industry taking into account the changes that have taken place in the forms of ownership and the interrelations between organs of power and the enterprises.

The time has come to begin practical realization of the conclusions heard at the last regional scientific-practical conference to the effect that under our specific conditions, forming market relations and state regulation have not only not been ruled out but supplement one another. The experience of many countries (Germany, Sweden, France) confirms that it is in a unity of market mechanisms and "flexible" intervention from state structures that the guarantee of successful economic development lies.

Under the conditions of the continuing privatization, an ever larger number of enterprises will no longer be state-owned. They are being released, but they are not fully taking on all the concerns and problems of the collectives (the appeal that is now being considered confirms this to a certain degree). There must be a mechanism (taxes, credit, licensing), even if indirect, that regulates the activity of these enterprises. So far we have no such mechanism. But individual examples are appearing in the country and therefore there is the possibility of repeating this experience.

I do not think there is any need to prove that management mechanisms are changing, but there is still a need for management. We are increasingly experiencing how critical this is under our specific conditions.

In this connection one could consider it predictable that the oblast intends to deal with each enterprise individually in each specific case and find a solution. This must be done, but not instead of what was said in the report and what I hope will be said in the speeches and in the supplement.

As for the transfer of departmental housing and other social facilities, this problem must be resolved on a one-time basis and in a short period of time. The expenditures are too great—according to certain calculations, about R650 billion. The oblast cannot do this alone. As was noted at the meeting of the Siberian Agreement in Krasnoyarsk, a large part of the expenditures must be taken on by the state.

Be that as it may, the enterprises have developed a system for this work and there are specific people. We must not "throw them aside" all at once or in short periods of time, as has been proposed by certain managers.

In conclusion, once again I call upon the deputies—of the oblast soviet and the city assembly—the managers of the administrations of the oblast and city of Novosibirsk, and the managers of the enterprises to calmly and objectively evaluate the situation and our capabilities and to adopt a substantiated decision, which should include taking into account the possibilities of implementing the Government Decree of 31 May 1995.

Economic Issues

*Duma's Deputy on Security of Citizens' Savings Deposits

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[Interview with Viktor Ilyich Zorkaltsev, chairman of State Duma Committee on Public Associations and Religious Organizations and member of "Communists of Russia" faction, by Yuriy Belkin; date and place not given: "Four Hundred Trillion Rubles and Eight Laws"]

[FBIS Translated Text] So many miracles are being performed in our "rule-of-law" state. For years the people saved their earnings and deposited them in state savings institutions, but then some new people took charge of the government, announced a "reform," and turned all of these savings into dust, without feeling any shame or remorse.

According to the estimates of the Depositors' Rights Protection Society and the Union of Savings Bank Depositors—the two public organizations defending the civil rights of all those who suffered from the government's arbitrary actions—the direct losses of just the pre-reform savings entrusted to the state exceed 400 trillion rubles today. This is truly the theft of the century or, to put it more precisely, the financial swindle of the century. The victims of the theft are 70 million citizens, primarily members of the groups with the least social protection: the poor, the unemployed, the disabled, the heads of large households, and the retired.

In 1991 the uncompensated devaluation of savings exceeded 200 percent, but now the figure is more than 2,000 times as high. Deposits were tripled in a cost-of-living adjustment ordered by presidential edict in February-July 1994. This "thoughtfulness" was only a mockery. The attempt to "let off steam" did not work. The Russian people are incredibly patient, but their patience seems to be running out. In July 1994 a bill "On the Restoration and Protection of the Savings of the Citizens of the Russian Federation" was introduced in the State Duma by deputies V. Zorkaltsev, V. Lipitskiy, and S. Glazyev. Its passage by the Duma on third reading took extraordinary effort. The bill was approved on all of the necessary levels, and it was then signed by the president on 10 May this year.

It would seem that the dreams of millions of Russians had come true. The state acknowledged its debt to the people and its willingness to return their savings, but it is still too early to celebrate. It is too early to rush to the Savings Bank with bankbook in hand. First of all, it is no secret that laws are not always observed. Second, any withdrawals from these accounts would have to be preceded by the development of a non-inflationary mechanism for the return of this money, so that this legal instrument does not become as meaningless and as useless as earlier ones. To this end, State Duma deputies will have to pass several related laws. Will they be able to do this before the end of their term?

I asked Chairman Viktor Ilyich Zorkaltsev, chairman of the State Duma Committee on Public Associations and Religious Organizations and member of the "Communists of Russia" faction to shed some light on this situation. As the man who proposed the return of the savings of bank depositors in parliament, he knows what the defrauded Russians can expect.

I asked Zorkaltsev: "When can depositors expect to reclaim what is rightfully theirs?"

"In the next year, I hope," Viktor Ilyich replied. "I think expenditure items can be included in the budget for 1996 to repay this debt, but the mechanism cannot work until at least eight more laws have been passed. One should define the procedures for these transactions. Obviously, the money of all 70 million depositors cannot be returned right away. Can you imagine what would happen if all of them tried to withdraw their savings at once? Therefore, this has to be done sequentially, in order to avoid inflation. First we have to return the deposits of the elderly citizens who are already over 70 or 80. Many of them, after all, might not even live to see this happy day.... If a person has a small amount in his account—500 rubles or so—this money should also be returned first. Money should also be returned without delay in cases of illness, the loss of a breadwinner, or serious family difficulties. Other means of compensation will be used in other cases, but the main thing is to adjust the savings so that their purchasing power is equal to the pre-reform level."

[Belkin] Can you tell us who supported this law and who voted against it?

[Zorkaltsev] The overwhelming majority of deputies voted for it—all 45 members of the Communist faction, the Agrarians, the "Women of Russia," and the LDPR. The votes against it were cast by Gaydar and his "Russia's Choice," because they feel it would be impossible to return the money to depositors, and by the "Yabloko" faction and some of the independent deputies.

[Belkin] Viktor Ilyich, people have lost money not only in the savings banks, but also in various private financial firms like "MMM," "Tibet," "Chara," and many others. Some larcenous businesses also borrowed money from people and promised to pay them interest, but they never paid the interest or returned the money. This is another way the depositors were robbed. Can the State Duma take any action in these cases and pass the appropriate laws to put an end to the robbery of the people?

[Zorkaltsev] It is true that the prospects of the investors in these "firms" are bleak. Our Communist faction in the State Duma has taken an unequivocal stance on this matter. We feel obliged to support and defend the defrauded victims. It is obvious that they are not to blame for this problem. The present regime is primarily to blame. It was this regime that allowed the charlatan Ivanov or, for instance, the swindler Mavrodi to use the mass media to defraud the people, persuade them to invest their money, and then cheat and rob these citizens. The experts must have known what would happen, but they said nothing. The most appalling and immoral aspect of this was that the victims came from the lowest income strata. These people lost everything they had, but not one of the swindlers or criminals has been punished or even charged with any crimes by law enforcement agencies—i.e., by the state. There has never been so much disregard for the law in our country!

[Belkin] But the present advocates of "market reform" are telling everyone that the country needs to have as many rich people as possible. Some of their wealth will then trickle down to the rest. Then no one will be worse off than the rest, and this is certain to result in the prosperity of the whole country and every family in it.

[Zorkaltsev] I agree that rich people would constitute a rich Russia. I have no objections to this thesis, but people do not want their financial well-being to consist of leftovers from the elite's table. In the past we were equal because of the extremely high overall level of social prosperity. We are only beginning to realize this today, now that there is such an outrageous contrast between the rich and the poor.

The source of wealth is not a secret. Speculation, the appropriation of the public consumption funds that belonged to all of the people just recently.... The people do not want to get rich by cheating others. They want to be rich, but they would prefer to earn the money honestly. They want to earn their financial security with their own labor, with their own hands, minds, and talents. Obviously, a system that does away with individual differences is not what they want. Equitable differences are necessary. A rich academician and a rich night watchman are two different things, but there must be some kind of common financial base that will equalize them in the best sense of the term.

[Belkin] Now we have rich parties in addition to rich individuals. This applies mainly to the "ruling party." The practice of buying votes is becoming more common. We know of many cases in which people have received "gifts" of a can of condensed milk, a bottle of vodka, or some cheese to persuade them to vote for the right person. Instead of feeling angry or offended and scornfully refusing the gifts, people enthusiastically vote for their "benefactors." Does this mean that the people want to be defrauded? The nouveau riche politicians do whatever they want with their stolen money. They can afford it....

[Zorkaltsev] Our Communist Party is not particularly solvent, to put it plainly, in the financial sense. It cannot throw money around the way the "ruling party" or today's businessmen can. But this only underscores its propriety. In an atmosphere of widespread poverty, people always doubt the respectability of a rich man or public organization. People always wonder where all of that money came from. At one time some of the news media and some of the reform politicians tried to discredit us with allusions to the party's secret cache of money and speculated on this. The lie later burst like a soap bubble. Today we are winning more and more recognition and support from the voters, because the people are convinced of our honesty and sincerity and of the integrity of our plans and intentions. This is extremely valuable.

Now we have proposed the return of the depositors' savings. Maybe the people will finally believe that there are some serious social forces that are actually fighting for their interests instead of just making speeches about this.

[Belkin] Would you say that the present government is making every effort to get rid of social programs and is deliberately slashing them so that people will have to solve their own, sometimes insoluble problems?

[Zorkaltsev] That is true, and it cannot be described as anything other than genocide. Even Yeltsin admitted in his message that the social sphere is a source of tension. The mere admission, however, is not enough. This tension and the causes of it have to be eliminated.

The flaws in our current economic policy line are becoming increasingly distinct and evident. People are beginning to make comparisons and to realize that it was yesterday, and not today, that they were masters of their own life and their own fate, had real freedom, and had adequate protection.

Just think about the past for a minute. Just imagine a situation in which they had taken just 10 rubles out of a person's wages, and not all of his savings. Just think what a scandal that would have been! Just think how much commotion it would have aroused! Just think how many organizations would have rushed to learn what had happened and how it could have happened. As soon as the person had filed a complaint, there would have been a response from the trade-union committee, the party committee, the people's control committee, the soviets, and the press. Everything would have been turned upside-down. Now that was democracy! Can you imagine like that happening today? The coup d'etat resulted in the loss of all of the attributes of government by the people, of democracy, and all of our legal guarantees. Today there is not a trace of any of these. The people are repressed; they are afraid to voice the slightest complaint or to reveal their true feelings. They are afraid of losing their jobs and their salaries.

[Belkin] Is this the reason that people are confused, disoriented, and passive? Is it because they do not see a single force, a single party, or a single public movement that would take real action to protect them from the arbitrary actions of officials, defend their interests, which are regularly infringed by their new nouveau riche masters, and stand up for their rights? It is possible that people do not always realize that the Communist Party is an active defender of the people's social guarantees.

[Zorkaltsev] That is the most crucial question. When I was addressing a collective a few days ago, one of our opponents began to criticize my views and the party program. Here is what I said to him: What have you done for these people? What have the powers that be, whose ideology you support, given the country and the society? Ruin, collapse, a declining standard of living, unemployment, excessive crime, and moral degradation. What kind of sensible person would brag about these "achievements"? I agree that we have not done that much. There are only 45 of us Communists in the State Duma, but we did push the law on the return of the savings of Savings Bank depositors through parliament five times. We also did this with the law on trade unions, so that there would be one more structure defending the interests of the people. We also managed to promote a law on military service, essentially disallowing the practice of sending new recruits to "hot spots." The mothers of these boys know why we did this, and they know how much effort it took. We earned their admiration and gratitude. The members of our faction vote on all of the bills that are passed or not passed in parliament, and all of our actions have a leftist tinge. I can sense that the people admire us and support us. This kind of support is not automatic. It has to be earned. To this end, we have to take action to show the people that our "left" cause is the right cause. We are certain that we are right. The force, the party, which defends the right cause and which stands up for the rights of the Russian people instead of seeking only their affection, is certain to triumph, and the people will accept it as their leader.

*Rush To Sell Dollars for Rubles Warned Against

954E1136C Moscow ROSSIYSKAYA GAZETA in Russian 22 Jun 95 p 2

[Article by Aleksandr Velichenkov: "Should the Dollar Be Taken Out of the Mattress?"]

[FBIS Translated Text] **The continuing drop in the official rate of the dollar, which makes up almost 10 percent of its upper mark, brings many of our citizens, who have been accustomed to keeping their savings "under the mattress," to a difficult choice. What to do with cash dollars—sell them, or not?**

Russian Federation Economics Minister Ye. Yasin is categorical—there is no need to rush to sell, everything will return to its place. V. Gerashchenko—the absolute authority on banking matters—is more cautious in his evaluations. He does not give direct promptings, but believes that the Central Bank should not permit the rate of the dollar to change sharply "in one direction or another." Even B. Fedorov, a person who supported the rate of the ruble with the most "draconian" measures, including the nonpayment of wages, believes that the rate of the dollar will rise relentlessly.

The question is: When? And what should be done now? Let us discuss this. With the total volume of sales of the noncash dollar on the domestic currency market in the last three months in the amount of about $10 billion, its rate dropped by almost 10 percent. Sellers of noncash currency had no problem with the effective demand for currency in rubles, since everything that was not sold on the interbank market the Central Bank bought out on the currency exchange through an ordinary budget emission. In fact, not quite "ordinary," because usually this was an obviously inflationary budget emission, but now it is really backed by the bought-up mass of dollars.

Now let us imagine the following situation: All of us were frightened by the temporary loss of the rate difference and began to run to money exchange kiosks to sell dollars. Neither the Central Bank, nor the Ministry of Finance, nor commercial banks will be able to affect this process. This will be a classic spontaneous panic on the currency market.

The reserve of cash rubles in commercial banks will regulate the price at "windows." But this is by no means the same as noncash rubles. The Central Bank can instantly issue them and buy up dollars. The situation with cash is much more complicated—bags of money do not appear instantly. With what money should dollars be bought up at "windows"?

According to various evaluations, there are about 20 billion cash dollars in Russia. All Russia's banks, including the Central Bank, do not have spare cash in the amount of 90 trillion rubles [R]. What will happen? Most "windows" simply will close until "circumstances are clarified." Those that will operate will set an outrageous rate in the range of 1,000 to 1,500 per dollar. Is it profitable to sell at this rate? Perhaps it is better to suffer temporary losses and wait? And not merely wait, but put the "green" cash in an old reliable bank in a time deposit at an acceptable interest rate? Otherwise, all of us together will become "forgers of our own misfortunes."

It must be admitted that commercial banks are not rushing to sell their dollar reserves. Banks that have already sold them are beginning to buy them up quite actively at the fallen price. Our bankers realize perfectly well that, as a result of all these rate games, the Central Bank will get the main profit. The billions of dollars bought up by it will wait for "better times" and will be sold only in case of a significant rate increase. Then all those who so desire will have to buy an expensive dollar. If our bankers understand this perfectly well, then, perhaps, all of us should also pay more attention to their experience and decide something for ourselves?

The accusations—which sometimes are heard in the press—directed against the government and the Central Bank to the effect that they started the game of the "falling dollar" in order to once again "rob" the population is an idle fabrication of their authors and people who do not understand much about the economy. This would have been correct if the Central Bank of Russia sold dollars, bringing their rate down, but it acts in just the opposite way—it buys, and buys a lot. Consequently, we alone can let ourselves be robbed—some in the hope of "saving their hard-earned money" and some on the expectation of earning some extra "greens" if they plunge into the game of lowering their rate—today to sell dollars at a higher price and tomorrow to buy them at a lower price.

Calm, discretion, and circumspection are the best advisers in this situation.

*Bankruptcy Chief Places Blame on Poor Management

954E1136A Moscow DELOVOY MIR in Russian 12-18 Jun 95 p 31

[Article by Petr Mostovoy, manager of the Federal Administration on Insolvency and Bankruptcy: "Most Troubles Are Connected With Unscrupulous or Inept Management"]

[Text] The nonpayments crisis, about which a great deal has been said and written recently, has several reasons in its basis.

The first and, perhaps, most important is the lack of opportunity for most economic subjects to avail themselves of long-term credits, which they need for the restructuring and modernization of production. Whereas all over the world this problem is easily solved through mortgage crediting, owing to the lack of a legislative basis Russian enterprises do not have such an opportunity. Work on the draft law is going forward, but so is time.

The impossibility of mortgage crediting makes it necessary to use commodity credit. If deliveries and payments are not effected on the stipulated dates, the mass of debts grows. Under these conditions the lack of clear legal regulations makes it possible not to pay off one's debts and not to demand them from debtors. Playing on this, some enterprises maintain their viability, while others are in an extremely difficult situation. They are primarily enterprises at the end of the technological chain. The way out is to establish in the country a system of mortgage crediting, which in combination with measures to lower inflation would help to create an environment where enterprises could receive the resources they need.

The second reason is connected with the fact that the overwhelming majority of enterprises have either inept or unscrupulous managers. This is the second reason in importance. Inept management signifies orientation toward the output of products that no one needs, again, owing to inept demand research. Unscrupulous managers are simply swindlers, who build relations with partners in such a way that a significant part of the funds that could form the enterprise profit is used by the manager himself for personal goals; for example, to finance firms connected with him.

The third reason, again, is connected with inept management. It lies in the fact that most enterprises do not have any concept whatsoever of strategic financial management, or a clear idea of how financial flows, into which the enterprise is drawn, are organized. Consequently, there are no prerequisites for efficient management of these flows.

Finally, the fourth reason lies in the area of production structure in Russia. Russian enterprises were formed when the ideology of the country's self-provision with necessary goods prevailed and the international division of labor was ignored completely. Russia's entry into the world system objectively demands major restructuring and large capital investments. Apparently, the basic flow of investments will be directed precisely here.

What, in my opinion, can be done here? In addition to an improvement in the financial and legal system there is the task of a purposeful effect on the economic behavior of individual enterprises and of specific effects on economic subjects. These effects should be selective and can be classified as follows:

First, it will be a matter of improving management through a direct replacement of managers who adhere to an antimarket orientation with those who are capable of carrying out efficient enterprise management. In order that changes may become stable, a replacement of the owner is necessary.

The next category represents inefficient enterprises, which, owing to their social significance, cannot be liquidated at once; for example, coal mines. Here it is necessary to solve the problem of removing them from the economic turnover with minimum costs for collectives. This is a very complex task.

However, there are also enterprises which can be removed from operation quite rapidly. This has a normalizing effect on their partners—those whose funds they have constrained. At the same time, it often turns out that the removal of an individual enterprise immediately helps several others, so that the overall balance turns out to be markedly positive.

Of what interest is the above-stated in terms of attraction of investments? Where it is a matter of the replacement of an inept manager, who has made a potentially efficient enterprise unprofitable, investments can produce an effect in quite a short time. In the second case we deal with a situation when, as a result of restructuring, a facility turns into a group of facilities, some of which are promising, while others must be reorganized or removed from the economic turnover. Finally, in the last case, with the liquidation of the enterprise, participants in the business cycle connected with it get a chance to purchase the facility, which, if they have their own plans on this score, they can use efficiently.

Now we are trying to create a mechanism of sale of enterprises, when all concerned participants in the business cycle are informed in detail of everything. This also concerns foreign investors. For this purpose we are joining the system of information for foreign investors established by the Russian Federal Property Fund. It is important that we will give advance information on the forthcoming liquidation of enterprises, so that buyers can prepare themselves appropriately.

*Finance Ministry Official on Free Economic Zones

954Q0238A Moscow EKONOMIKA I ZHIZN in Russian Jun 95 No 24, p 12

[Article by Igor Yuryevich Noskov, chief of the RF Ministry of Finance international tax and investment cooperation department, under the rubric "The Economy and Reforms": "Free Economic Zones in Russia: Possibilities and Reality"]

[FBIS Translated Text]

From Letters to the Editor

"Polemics have recently been developed in the mass information media concerning the Ingushetia Economically Favored Zone [EFZ], which was created as an experiment. The most contradictory assessments of the experiment are given.

"At the same time, many enterprises took advantage of the opportunity to lessen the tax yoke and obtain privileges and registered their enterprises there, which helped them get going. But now they find themselves 'hostages' to imprecise and inconsistent legislation. Tell us in more detail about what, specifically, the essence of the grievances against the operation of the Ingushetia FEZ [free economic zone] is. Are there any positive results?"

Ye. Vasyunin, city of Ust-Kamenogorsk

In fact, the newspaper EKONOMIKA I ZHIZN in its articles covered problems involving the operation of the Ingushetia EFZ, notably discussing the activities of the BIN Corporation (No 14, p 11; No 22, p 9; and No 23, p 13). However, in order to show the entire spectrum of opinions on this problem, today we are presenting the floor to the chief of the RF Ministry of Finance international tax and investment cooperation department, Igor Yuryevich NOSKOV.

The editorial office invites all interested parties to participate in the polemics.

In creating a FEZ system, Russia utilized both those developments which were a legacy from the Soviet Union and world experience. Substantiating the idea of the existence of FEZ's in Russia, its advocates claimed that these zones would become the forward bases in attracting foreign investments, above all in the form of new technologies, to the country. Cited as an example here was the experience of the People's Republic of China, Malaysia, and Indonesia, who, in all fairness we must say, achieved substantial successes in this direction. This same argument is still used even now.

The actual legal foundations of the existence of FEZ's in Russia were put forth by the RSFSR Law dated 4 July 1991 and entitled "On Foreign Investments in the RSFSR," which envisioned the possibility of granting additional privileges, including tax benefits, to foreign investors and enterprises with foreign investments which carry on economic activity in FEZ's. Work began on developing the Law "On Free Economic Zones in the RSFSR" at the same time.

However, even before the legal enactments indicated above, the appearance of a number of documents marked the beginning of the process of the creation of FEZ's in Russia. Thus, by the RSFSR Supreme Soviet decree dated 13 September 1990 and entitled "On the Creation of Free Enterprise Zones" (it was issued as an addition to the RSFSR Supreme Soviet decree dated 14 July 1990 and entitled "On the Creation of Free Enterprise Zones," which was general in character), the creation of the Kuzbass FEZ on the territory of Kemerovo Oblast and the EVA FEZ in the Jewish Autonomous Oblast was initiated on the basis of proposals from the regions. Issued to develop this decree were Directive No 1,371-1 of the RSFSR Supreme Soviet chairman dated 7 June 1991 and entitled "On the Economic-Legal Status of the FEZ in Kemerovo Oblast" and RSFSR Council of Ministers Decree No 312 dated 7 June 1991 and entitled "On Priority Measures To Develop the FEZ in the Jewish Autonomous Oblast." At practically the same time, an RSFSR Supreme Soviet decree dated 24 October 1990 created the Nakhodka Free Economic Zone in the Maritime Kray in the region of the city of Nakhodka. Statutes on these zones were ratified, and they contained a specific list of additional incentives to attract foreign investments to the zones being created. As a rule, they envisioned significant benefits paid out of general state capital for a relatively long period of time.

Under the influence of the example of a number of regions, other territories (such as the Altay and Maritime krays and Sakhalin, Novgorod, Chita, Leningrad, Moscow, and other oblasts) also came out with similar initiatives for creating FEZ's with consideration of certain local features.

In connection with the fact that the creation of FEZ's did not proceed in accordance with unified statewide criteria which could be established by the unified Law "On Free Economic Zones in Russia," but in accordance with enactments of an individual character taking into account the interests only of the particular territories, certain measures to block the processes of the country's economic disintegration were adopted on the state level. In connection with the creation in Russia of a fundamentally new system of taxation, the old benefits in the area of taxation had to be expressed in new tax legislation put into effect in late 1991-early 1992. Otherwise, they were declared invalid.

The legislation which went into effect defined the procedure for offering additional tax benefits only through tax legislation enactments. Thus, offering tax benefits not envisioned by tax legislation is prohibited according to Article 23 of the RSFSR Law dated 10 October 1991 and entitled "On the Fundamentals of the Budgetary System and the Budgetary Process in the RSFSR." The right to establish benefits for taxpayers is granted exclusively to organs of state power by the Russian Federation Law dated 27 December 1991 and entitled "On the Fundamentals of the Tax System in the Russian Federation." The RF Supreme Soviet Decree No 3,255-1 dated 10 July 1992 and entitled "On Certain Questions of Tax Legislation in the Russian Federation" envisions that federal tax benefits are introduced by making amendments and additions to the existing legislative enactment on the particular tax.

On the basis of these statutes, in calculating the tax obligations of taxpayers who were residents of FEZ's, the tax organs, supported on this issue by the RF Ministry of Finance, did not take into consideration additional benefits which were not in keeping with existing tax legislation. This practice exists even now.

We should mention that the Ministry of Finance and Gosnalogsluzhba [State Tax Service] do not oppose the existence of FEZ's in Russia altogether. This means merely that the process of their creation must be of a legitimate nature determined by law, must correlate with existing norms of Russia's tax and other legislation, and in addition must not infringe upon the interests of many regions in trying, for any reason, to satisfy the interests of individual territories.

The experience of creating the latest FEZ's, especially the experience of the existence of the so-called Ingushetia Economically Favored Zone, showed the need to regulate the process of the creation of FEZ's and actions within the framework of a unified reasonable state policy and with consideration of the norms of existing legislation.

The Ministry of Finance together with RF Gosnalogsluzhba has repeatedly notified the RF Government of the negative consequences of the creation and operation of special economic zones like the Ingushetia.

Under a federal state, benefits paid out of federal budget capital must be approved in the country's supreme legislative organ where the opinions of all subjects of the Federation are heard and taken into consideration.

In the present situation, the natural question on the part of oblasts which make substantial contributions to the federal budget (Samara, Nizhniy Novgorod, Moscow, Leningrad, and other oblasts) of why the money the state collects from them in the form of taxes and mandatory payments should be transferred to a different territory, even one experiencing substantial socioeconomic problems, may arise. Moreover, in Russia at the present time, not one territory can perhaps be found where there are no serious problems which need to be solved rapidly.

However, taking into account the negative experience of the existence of the Ingushetia Zone, we consider adopting such a law and creating zones like it in Russia to be unwise. World experience confirms that special economic zones are based for the most part on benefits paid out of the budget capital of the territories where these zones are located. This is especially significant for developed nonunitary states (the United States, the FRG, and Switzerland). Moreover, as soon as mention is made of income derived from sources on their territories (from the use of real estate, transport, work force, national securities, and so forth), even the most well-known "offshore" lands like the Isle of Man, Cyprus, and Ireland, which taxpayers love, as a rule apply norms of national law on this income which are frequently tougher than the same norms of Russian tax legislation. So throughout the world these offshore lands are considered centers of tax piracy where income is pumped from other states.

There is even more reason not to consent to the existence of zones like the Ingushetia when the budgetary and other rights of local organs of self-government are directly undermined. The documents of an audit of the activities of the BIN Corporation done by the tax organs confirm that most enterprises and organizations which in fact carry on their activity outside the borders of the Ingushetia Zone were registered in this zone only for the purpose of avoiding taxes and do not carry on any activity within it. As of 1 January 1995, only 19 of 1,302 enterprises registered in the zone were actually located there (0.015 percent). Since at the present time taxes are paid in the Russian Federation on the basis of the location of the taxpayer's legal address, some local budgets have thereby been deprived of income revenue from the reregistered enterprises.

But if we look at how the BIN Corporation which was "favored" with federal budget capital disposed of it, we are even more puzzled regarding why it was necessary to create any special zone when an edict of the RF president envisioned aid to the republic both in monetary and material form to build or reconstruct objects for various purposes, aid whose use could be precisely monitored by the federal authorities. Let us cite some facts (as of 1 January 1995) to provide some evidence:

—the total amount of capital BIN obtained for its current account was 46.2 billion rubles [R];

—the distribution of the amount obtained:

—R19.5 billion transferred to the fund to develop the Republic of Ingushetia;

—R4.3 billion spent for advertising;

—R2.1 billion to cover the BIN Financial Corporation expenses;

—R1.3 billion to return the loan with interest obtained by the BIN Financial Corporation;

—R2.2 billion to pay off the loan with interest taken from the BIN Joint Stock Commercial Bank;

—R6.3 billion to pay off indebtedness on returning 50 percent of the customs fees to Ingushetia EFZ enterprises;

—R10.5 billion in balance capital in the BIN current account.

What are the conclusions? First, R9.9 billion (21.4 percent of the capital received) were spent for the BIN Corporation's needs; that included 9.5 percent for advertising. Secondly, R30 billion (65 percent of the amount obtained) went to the account of the BIN Corporation (read, BIN Commercial Bank) and, it is easy to surmise, were used for the BIN structure or the persons it represents to derive additional income.

We must mention that RF Gosnalogsluzhba was instructed to report to the particular state tax inspection offices of the subjects of the Russian Federation the amounts of taxes their regional and local budgets failed to receive because enterprises which were formerly taxpayers in these regions illegally reregistered in the registration department of the closed-type joint stock company BIN Financial Corporation. A preliminary audit of BIN itself has been completed, but the tax police organs continue to audit the activities of enterprises which succumbed to this corporation's promises.

In connection with what was stated above, the Ministry of Finance submitted a proposal not yet supported by an unequivocal final government resolution regarding the adoption of the decision to terminate the experiment to create the Ingushetia Free Economic Zone on 1 January 1995. Bearing in mind the possible claims of enterprises which may be adversely affected in connection with the zone's liquidation, it was considered possible to stipulate that in connection with the termination of the existence of the Ingushetia Zone, enterprises registered in this zone will not bear additional tax obligations on accounts during the period from the moment of this registration until 1 January 1995.

However, we must say that the interested party is now actively pushing documents on the state level to extend the experiment and the existence of the Ingushetia Economically Favored Zone, while the Ministry of Finance again seems to be on the sidelines (the text of the RF Government Decree No 740 dated 19 June 1994 and entitled "On the Economically Favored Zone on the Territory of the Ingush Republic" was not reconciled with the competent subdivisions of the Ministry of Finance and Gosnalogsluzhba). Other regions (Kabardino-Balkaria, Adygey, and others) operate like the Ingushetia.

Throughout the world, states create FEZ's above all expecting to develop national export potential or an effective replacement for existing imports. The places where a specialized FEZ can be created are determined with consideration of economic efficiency indicators. Many states invest capital, and considerable amounts of it, to create a FEZ, expecting the expenditures to be reimbursed after many years (like, for example, Greece, which has the structure Greek Industrial Development Bank authorized by the state to invest in creating FEZ's on the state's behalf). In some cases these expenditures have proven to be ineffective, but in others they have paid for themselves.

A carefully deliberated policy for encouraging a stream of capital, especially foreign capital, to certain sectors of the economy (above all the processing industry, the creation of export oriented production facilities, production of consumer goods, and so on) as well as to particular regions can provide a significant economic effect not only for the particular territory but even for the state as a whole. The creation of particular FEZ's is one way for a state to convey such a policy.

World practice confirms the high effectiveness of this form of attracting foreign investments. FEZ's make it possible to develop progressive sectors of industry and create export oriented production facilities in a relatively short period of time. Work to create FEZ's in Russia should be carried out in this context too; otherwise, there is no sense in speaking of these formations on the state level, and local organs of self-government can successfully resolve the question of attracting investors to their territory within the limits of their own budgetary rights. But if we are speaking of offering benefits on the federal level, these benefits must satisfy the state's interests and be justified. Sometimes it is more rational to use direct budget financing, extension of credit, or other forms of aid.

The State Duma of the Russian Federation Federal Assembly is now reviewing three alternative drafts of the Law "On Free Economic Zones": the RF Government (the main author is the Ministry of Economics), the version submitted by deputies Melnikov and Mikhaylov, and the version of deputies Ustinov and Yakovlev. None of these versions is perfect in terms of taxation. A lot of arguments exist in favor of changing the tax provisions contained in these drafts. However, if a version of the Law on FEZ's which is not sufficiently deliberated is adopted, the existence of FEZ's may violate both the state's interests and those of the particular regions.

*Prospects for Financial-Industrial Groups Examined

*Domestic Producers Should Be Supported

*954E1155A Moscow SEGODNYA in Russian
23 Jun 95 p 4*

[Article by O. Romanova: "Financial-Industrial Groups Being Replaced by Industrial-Financial Groups"]

[FBIS Translated Text] **Government To Focus on Forming and Developing Financial-Industrial Groups (FPG)**

On Tuesday, First Vice Premier Oleg Soskovets held a conference on the pressing issue involving the functioning of FPGs (the draft law on which has been worked on rather sluggishly for more than two years by the Committee of the Federation Council on Economic Reform and Financial-Credit Policy).

On Wednesday Boris Yeltsin met with representatives of the largest FPG and their sponsors from the State Industrial Committee (whose pseudo-alternative draft law appears to be vying with the Senate version, by the way, without any visible headway being made by either draft). The president promised to support the rather slow-moving process involved in the creation of the FPGs with his edict which should see the light of day in the near future. That will be the second presidential edict devoted exclusively to FPG problems. The first edict, issued two years ago, enriched economic subjects with the term "FPG," the true meaning of which is still a topic of lively debate among the theorists.

The president, however, intends to support not the FPG at all but industrial-financial groups (PFG). The reversal of letters in the abbreviation, which has been repeated a number of times by the president, was not a mispronunciation. Pushing the FPG aside, proponents of PFG are coming to the forefront, replacing the differing interpretations of FPG as a form of "the merger of banking and industrial capital" with FPG as a form of recruitment of financial and banking capital by industry. The arithmetical theorem stating that rearranging the figures does not alter the sum certainly does not apply in the situation with the ex-FPG. In practice the close ties of financiers with industrialists have long ago created three major and completely independent directions (with an abundance of variations), which have not yet acquired scientific definitions. The first direction includes "natural" FPGs, officially registered, in which banking capital plays far from an infrastructural role. They include the Ruskhim (the Rossiyskiy Kredit Bank) and the Interros (ONEKSIMBbank). Second, there are certain quasi-FPGs which have currently been defined by the term "FPG," which completely correctly reflects their essence. The role of the first violin in them is performed by industrialists with a clearly differentiated defense industry character: the Izev plants, Sokol, the Ural groups, etc. Third, there are naturally formed and really functioning FPGs—models which have not acquired that status because they are burdened with their own current problems and are not in a hurry to receive benefits granted by the status ("classic" but unregistered FPGs form a majority of those in operation: Lukoyl Holding Company, Gazprom Joint-Stock Company, Alfa-Banka Holding Company, Menatep Bank Holding Company, and others).

It is noteworthy that the thesis on effective competition on the world market "of our PFG" with "their TNK" (transnational corporations) has become the motto of the new PFG campaign. If one is to look truth in the eye, there is still a long way to go to a competition: modern world TNK have long ago changed into supermonsters with multibillion dollar turnovers, while last year—which became the year of particularly active "mergers and takeovers"—was proclaimed in the West as a year of the triumph of international corporations. It is characteristic that for the first time mergers and takeovers took place essentially entirely by peaceful means in contrast with similar events 10 years ago which were filled with drama and tragedy.

The products of our defense industry, of course, frequently prove to be quite competitive. There is no doubt that it is highly desirable to have a positive balance of trade, and significant non-raw material exports would play a big role in that regard. Domestic industry, naturally, is in need of support—after all are we to purchase M-16 rifles from the United States to arm the defenders of our homeland?

Certain tax benefits and a wise protectionist policy are probably also necessary. Certain foreboding, however, develops that the PFG will soon join the APK [agro-industrial complex] with regard to the degree of participation in forming the federal budget deficit: tax exemptions, after all, are only an indirect way of increasing government expenditures and a special treatment of the PFG is reminiscent of the case of the unyielding special exporters.

Let us note that over quite a prolonged period of time recently, banks have been manifesting a perceptible interest in domestic industry. Serious talk has started in the banking community about long-term investments, and an intensive struggle is under way for a number of subjects of industrial investment.

*Federal Assembly Law on Groups Discussed

954E1155B Moscow ROSSIYSKAYA GAZETA in Russian 30 Jun 95 p 13

[Article by M. Zarezin: "Consolidation of Taxes Possible"]

[FBIS Translated Text] After the president displayed a heightened interest in problems of financial-industrial groups the Federal Assembly has been accelerating the process involved in the adoption of the law on those structures.

The Purpose and Forms of State Support

These two questions are tied closely together by Nikolay Gonchar, chairman of the Budget Committee of the Federation Council, one of the authors of the draft law being discussed, and by Vadim Belov, deputy chairman of the State Committee for Antimonopoly Policy, in their polemics at parliamentary hearings devoted to the FPG of the present and the future. The latter believes that FPG are being created primarily for realization of investment projects and correspondingly benefits are to be granted the FPG only for the period when they are working on them. Today, however, benefits apply to all groups regardless of whether they are really engaged in a certain program or not and then without a time limit.

By the way, such government "largess" is explained more by the fact that, as reported by Aleksandr Kalin, deputy chairman of the State Industrial Committee, out of the three types of benefits stipulated in the Edict of the President of the Russian Federation of 12 May 1993, No 2096, only one is in actual use: specifically, it is the transfer of controlling blocks of shares of enterprises belonging to the government to the FPG for commercial management or in trust. Even this benefit is not being used very much because the mechanism of that operation has not been worked out and the groups themselves have a poor understanding of what advantages are offered by it.

The draft law represents a totally different view of the problem, even though the concept of "investment project" remains—except that in this case its scale is determined by the status of the group: federal, interregional, or regional. As far as the granting of benefits is concerned the approach to each FPG is made on an individual basis but in accordance with the priorities of the industrial policy which the government will have to present in the form of an official declaration. The government likewise must work out the order in which benefits are to be granted for each group, substantiating its decision on what will make it possible to control such a procedure so filled with temptations, in accordance with the concept of the authors.

What Nikolay Gonchar agreed on with Vadim Belov was that the given draft undermines the foundations of existing antimonopoly legislation. On his own admission, that was exactly the goal that was set by the elaborators—to overcome the negative consequences of antimonopoly laws.

FPG: Form and Content

In response to the complaints by those speakers who were unable to discern the legal basis on which the FPG is founded either from the existing normative base nor the draft or whether this is a certain legal "innovation," Nikolay Gonchar explained that the FPG may be created in any form envisaged in the Civil Code. The draft law proceeds from the premise of the new Civil Code that civil law norms extend to legal bodies and specifies only what cannot be done, granting total freedom of action with regard to the rest within the framework of existing legislation. The restrictive norm, for instance, includes the following precautionary measure: the central FPG company participating in the group officially representing its interests cannot be a legal body with full responsibility so that it will not jeopardize the interests of the entire group in certain cases.

Benefits and Measures of State Support of Financial-Industrial Groups Envisaged by the Draft Law on FPG

—inclusion of the indebtedness of an enterprise whose shares are sold through competitive bidding (trading) as a portion of the investments envisaged by conditions of competitive bidding (trading) for the financial-industrial group which is the buyer

—recognition of financial-industrial groups as authorized monopolies on certain markets or in the production of certain products

—transfer of blocks of shares of participants of the financial-industrial group temporarily assigned to the government, to the central company of the financial-industrial group or a participant of the financial-industrial group for commercial management or in trust

—extension of property guarantees by the government in order to attract various kinds of investment resources

—granting of investment credit and centralized financial support for realization of investment projects of the financial-industrial group

—granting of tax investment credits

At the same time the elaborators of the draft law harbor quite a few complaints against our "economic constitution." Article 123 of the Civil Code, for instance, presumes only public noncommercial organizations to be associations, but at present the FPGs in the stage of registration regard themselves as economic associations. What can be done? The question becomes suspended in mid-air particularly since the government insists that the draft be brought into correspondence with that very article of the Civil Code.

It appears that due to the excessively "delineated" nature of the draft law it does not dwell on certain acute problems which occurred as a result of the fact that many points of the presidential edict contradict realities of the present-day situation. Aleksandr Kalin, for instance, agreed with the fact that from the prohibition of cross-ownership of shares by participants of the FPG it is necessary to shift to quantitative limitations. All the speakers agreed that it is necessary to eliminate the 10 percent quota on participation of commercial banks in FPGs. That restricts the growth of financial resources of the group as well as its investment potential.

Taxation and a Consolidated Tax

Sergey Yegorov, president of the Association of Russian Banks, made assurances that "the banks themselves are ready to participate in FPGs; it is merely necessary to stimulate them to do so." Such "stimulation" is possible through unification of taxes on participants of the group. Banks entering an FPG must not be subjected, like their brethren, to an additional 5 percent tax. In the opinion of Sergey Yegorov, that difference can be liquidated on the condition that the funds thus saved would be used for investments.

Nikolay Gonchar supports such an approach, merely adding that it is within the competence of the law on bases of taxation. A portion of the draft law on the FPG dealing with taxes was also worked out as part of the package with the draft of changes and supplements to that law. Thus the concept of "consolidated taxpayer" was included in both drafts.

Participants of parliamentary hearings, probably "consolidated" specifically around the item of the budget which states that structures entering into the FPG can be recognized as a consolidated group of taxpayers. At the same time Nikolay Gonchar stressed that individual types of taxes are being consolidated and, if we talk about a federal FPG, the consolidation concerns part of the tax designated for the federal budget.

The government has so far occupied a rather odd position with regard to that provision of the draft law. On the one hand there are expressions against the very term "consolidated taxation," while on the other hand, such a tax regime is being offered in January to a group of enterprises of the military-industrial complex in Nizhegorod Oblast, and in June, to three FPGs "as an experiment." In the opinion of the chairman of the Budget Committee of the upper chamber, it is time to shift from experiments which smack of being tax loopholes for the select few, to the extension of this order to all officially registered FPGs. According to Nikolay Gonchar, up to now the revenue portion of the budget has experienced a shortfall of 40 trillion rubles as a result of the granting of all sorts of benefits without a certain system.

*Duma Official Discusses Law on Securities Market

954Q0234B Moscow EKONOMIKA I ZHIZN in Russian Jun 95 No 25, p 6

[Interview with Yevgeniy Bushmin, coordinator of the Expert Council of Legislation on Securities and the Stock Market and deputy of the State Duma, by Ye. Proklova, EKONOMIKA I ZHIZN correspondent; place and date not given: "The Last Lap"]

[FBIS Translated Text] **Last summer, work on the law on the securities market was noticeably activated. On 24 May of this year the Duma passed a draft of the law at the third reading. Just when will the long-awaited law go into force, and what does it entail? Yevgeniy Bushmin, coordinator of the Expert Council of Legislation on Securities and the Stock Market and deputy of the State Duma, answers these questions.**

[Bushmin] I will refresh the memory of those who are insufficiently familiar with procedural questions. Before it goes into force, the draft law must be approved, not only by the State Duma, but also by the Russian Federation Council, and after that, be approved by an edict of the president. While the first "barrier" has been overcome, the other two still lie ahead. On 15 June the Federation Council examined the draft. As a result, it was returned to the Duma with amendments which the deputies were to discuss. Only after that will the document again be sent to the "higher levels of authority." I hope that all this will not take too much time, and that the law will begin to be in force by summer.

[Proklova] The basic work on the future law is already behind us. Even though the time for serious interpretation has not yet come, I would like to find out your opinion on the results of the path taken. To what extent does the result correspond with the initial idea?

[Bushmin] We did not, of course, realize everything that was intended. Practical experience, however, is richer in content than the best thought-out scheme. We therefore consciously left the "raw materials," the unshaped problems requiring further thought, for the future. For example, consultation activity, which is for the time being in an undeveloped state, was not prescribed. We decided this way. Let it find more specific forms through practice, reveal the conflictive situations, and then the real basis will appear for including the appropriate formulations in the law.

Matters stand differently when we discuss the section about the stock exchanges. The Expert Council has received several variants of the draft law, oriented toward the German or American model of the stock market. Here too, however, it was decided to count on the natural development of the processes. Various types of exchanges coexist on the Russian market today. If they prove their viability, then the general, more essential questions reflected in the law will be quite enough to regulate their activity.

In my opinion, it is very important for the law to create a more stable situation. There used to be an uncoordinated set of normative documents, with many questions lying within the framework of its force. We tried to fill in all these "voids." This does not mean that the document is all-encompassing, indeed, this is not necessary. The main thing is that it is now much more difficult to introduce endless amendments and additions, in the form of departmental letters and instructions. Naturally, the law is also subject to changes, it must evolve. This is a more complicated process, though, which reflects the significant aspects of market development.

[Proklova] The appearance of the law on the securities market is in itself a gratifying event. All the same, what new things will it bring to the activity of stock market participants?

[Bushmin] First of all, I should like to direct attention to the section pertaining to providing information. The requirements for revealing information on securities are formulated here. The emitters are charged with the duty of compiling quarterly reports and communications on essential events and actions touching on their financial-economic activity. With respect to the owners of securities and professional market participants, cases have been established in which they were obliged to disclose information. These are essentially preventive measures. Since they will be coordinated with the specific responsibility for false information, however, (corresponding provisions have already been included in the new draft of the Criminal Code), the situation will change in earnest.

This same section contains a chapter on advertising on the securities market, where "forbidden areas" are clearly defined for advertisers. They must not publish information on the estimated income and growth prediction of the market value, must not report false data or data that are not authentic, that lead market participants astray. Legislatively established criteria will therefore appear, in accordance with which advertising may be recognized as unscrupulous. Moreover, agreements based on unscrupulous advertising are recognized as invalid. I hope that, with the introduction of the law in force, the ranks of Mavrodi followers will thin out noticeably.

I suppose that many stock market participants have worried about the question: Will the activity of self-regulated organizations (SRO) be reflected in the law, and in what form? After long debate, the deputies approved the corresponding chapter, but excluded from the initial variant of granting to the SRO's the right to license the activity of professional participants in the stock market. I think that this was the correct decision. Excess radicalism has already more than once led to grievous consequences. There is no need to hurry. Let the professionals unite, perform joint work, and work out general rules. If as a result of their development the SRO's become an influential force on the stock market, then we can confer on them the right to licensing.

[Proklova] How will the norm-creating process go after the law goes into force? Will any legally binding acts be passed?

[Bushmin] Since the law has raised the status and clearly designated the functions of the Federal Commission on the Securities Market, many questions are referred to its jurisdiction. The range of problems waiting to be solved is quite wide. As an example, I can give the introduction of restrictions on combining different types of activity. Until the Commission puts forth the corresponding rescript, this principle will be in force: Everything is permitted that is not forbidden.

A compromise approach was adopted with respect to bearer securities. They retain the right to existence, but as the market infrastructure develops, they will gradually be crowded out as the result of the Federal Commission's quantitative regulation of their issuing.

On the whole, though, in drawing up the law, we tried to make it a document of direct action, so that we would not have to adopt a multitude of additional documents later on. Even though today we have to hear accusations of the excessively instructional nature of the law, I continue to assert that this is its positive aspect. Better to give clear-cut and well-developed formulations in a single law than to create the conditions for a new wave of departmental norm-creation. I hope that this approach will satisfy the practical experts to whom the new law is particularly addressed.

*Privatization Official Discusses Sales of Stock

954Q0234A Moscow EKONOMIKA I ZHIZN in Russian Jun 95 No 25, p 1

[Interview with Vladimir Sokolov, chairman of the Russian Federal Property Fund, by A. Kuchinskaya, EKONOMIKA I ZHIZN correspondent; place and date not given: "Enterprises Are Increasingly Thinking About Capitalizing Their Shares"]

[FBIS Translated Text] **The Russian Federal Property Fund [RFFN]—a specialized financial institution attached to the RF Government—obtained this status in December 1993 after a presidential edict approved the statute on the RFFN. Today the fund has been ordered to take exhaustive measures to ensure the sale, in 1995, of packages of shares that had earlier been assigned to federal ownership, as well as the residuals of shares of which the RFFN and local property funds appear as holders. Vladimir Sokolov, chairman of the RFFN, tells us how this work is going in an interview with our correspondent.**

[Kuchinskaya] Vladimir Valentinovich, what is the main difference in the second stage of privatization for the Russian Federal Property Fund?

[Sokolov] The post-check period, in my opinion, is more complicated, and here are the reasons. In the first place, the most liquid security in the still brief history of the Russian stock market, the privatization check, went out of circulation. Appearing as an object-oriented means of payment, it not only stimulated investment demand, and moreover, artificially, but in addition, seemed to multiply it.

In the second place, the sale of shares for money under the conditions of inflation requires a higher degree of organization, elaboration of regulations, and accounting of the flow of applications and money. The approaches to price determination have changed: For a considerable list of enterprises, we take into account the turnover and prices of a second market. This special feature did not exist at the stage of check privatization. The methodology of determining starting prices is still in the stage of development and will be corrected on the basis of the sales experience accumulated.

[Kuchinskaya] Will orientation toward the prices of a second market make it possible to choose the best time for sales, or should one hold strictly to the established schedule?

[Sokolov] As we know, the Federal Fund Corporation AO [Joint-Stock Company] deals directly in share-trading, and it has a certain freedom of choice in designating the periods, but not in all cases. Enterprises are selected according to the criterion of the "heating-up" of the market for their shares, and the first portion, with the most optimistic characteristics, is submitted for sale.

The "heating-up" of the market, however, is a delicate matter. On the one hand, overstating the starting prices may have the opposite results: of "planting" the market and sharply curtailing the sales volumes. On the other hand, irrationally low prices give an already developed market the possibility of getting the difference for the state.

In their turn, the enterprises are increasingly thinking about capitalizing their shares, trying to discuss with us not only the starting prices, but also the time to sell.

[Kuchinskaya] On what does one or the other outcome of the trading depend?

[Sokolov] There are several scenarios by which events could develop. If the basic structure of ownership has already been formed, then the price of the package put forth depends not only on the liquidity of the securities, but also on the size of the circle of persons interested in acquiring them.

The desire to enlarge the package will also inevitably affect prices —they will be higher. If, however, the remainder of the shares not bought on closed subscription, the funds making the enterprise workers joint-stockholders (FARG) and others have to be sold, it will be extremely difficult to do this.

There are various reasons for this. For example, small packages of shares, from 1 to 3 percent, are intended to cover the expenditures to organize check auctions. Last fall, however, the demand fell, prices dropped accordingly, and we considered it inadvisable to sell these packages at that time.

[Kuchinskaya] Different variants of sale are provided for at the new stage of privatization. Questions of transferring packages of shares, as security and to empower control, continue to be discussed. Attempts are being made to use convertible bonds and derived securities when packages of shares are freed from federal ownership. Which of the methods do you prefer?

[Sokolov] Different methods have their advantages and disadvantages. In my opinion, the variant of investment competitions is quite contradictory. The largest of them, in which the sums are transferred for $100 million, are the most like empty promises. The same thing can also be said about the others: At the overwhelming majority of the enterprises the investment programs are simply not realized. That is why investment competitions have overt opponents among the developers of the norms and rules, and among consultants. They also have adherents, though, since the state, for a token price, rejects the package on behalf of the enterprise.

I see as particularly urgent the problem of the impossibility, in some cases, of working out programs for technologically backward enterprises and attracting investors to them, bearing in mind all the directions of their activity. The delay in restructuring these enterprises lessens the effectiveness of privatization.

The question of the fate of enlarged packages of shares is being widely discussed: either hand them over to a bank consortium, or issue bonds on receipt of them, or find other possibilities. There is probably no universal recipe here. You have to test it out, using the whole range of known variants.

[Kuchinskaya] Please estimate the proposed amount of income from privatization. How well substantiated are these figures?

[Sokolov] The designated potential earnings from privatization in 1995 should be 8.8 trillion rubles [R]. I think that this figure is strongly overstated. By my estimates, the sale of enterprises, on which the decisions have already been made, gives a basis for speaking of only R450-500 billion, which is one-sixteenth of that planned. This is a prediction of the receipts in the budget which we can guarantee.

Potential Receipts from the Sale of State Property in 1995—R8.7736 Trillion (according to Goskomimushchestvo data)

Including Through Funds from Sale:	
Shares of existing oil companies and those being set up	6,842.8
Shares freed from federal ownership (apart from oil-gas sector)	918.5
Shares in RFFN	486.2
Shares of newly privatized enterprises	80.2
Land parcels near privatized enterprises	104.2
Unfinished construction projects	341.0
In addition, to be directed to the federal budget through dividends on shares secured in federal ownership, lease payments, and buying up leased property	206.4

The extent to which the figure of R8.8 trillion is approached also depends on the macroeconomic conditions. We may note a certain trend toward a decrease in inflation, a change in the parity of dollar-ruble relations, a 1 percent rise in the gross product, etc. What gives any basis, however, for regarding these as signs of stabilization? What, in general, do we mean by stabilization?

At the beginning of June 1995, among the objects of federal ownership, packages of shares of more than 3,000 enterprises were sold, but only about 60 percent (R500 billion) of the amount that I named got to the budget, meaning uniform receipts per month. A thing like this can be explained by the "lag" nature (approximately 2-2.5 months) of the money entering the budget. We hope, however, that by September we will succeed in achieving different indicators.

The fund market is more optimistic than I am, because its life has been activated, and the quotations have gone uphill. The problem of strengthening the people's faith in the securities market, as before, however, remains a pressing one. According to the data of the Ministry of Economics, the population today is capitalizing 20 percent of its income, but no general, total interest in securities has as yet appeared.

[Kuchinskaya] What, in your opinion, is the key problem of the securities market today?

[Sokolov] It all rests on the market's lack of organization. Creating an infrastructure is quite an expensive undertaking and it is formed not only from "computerizing the entire country," but also from training personnel selected by mutual trust, and also from developing an ideology understandable to everyone—the strategy of market evolution.

In my opinion, the stock market should be formed and strengthened with the support of the state. The Federal Commission is striving to achieve two goals: developing initiative and trust among the participants in the stock market to the necessary level, and also increasing their responsibility, and in this sense it sees its participation in creating certain institutions, as for example, a depository-clearing center.

Should state structures take part in forming the stock market? Probably, yes. To what extent? This is a topic of constant discussion, because, since it is in the stage of coming into being, everything in it will still change repeatedly. It goes without saying that we need funds today to support this system.

*Sixty-Two Different Taxes, Other Collections Listed

954E1136B Moscow IZVESTIYA in Russian 14 Jun 95 p 4

[Article by Vladimir Frolov, president of the Nalogi Rossii Association: "Like Taxes, So the Economy"]

[FBIS Translated Text] Specialists at the Yekaterinburg Nalogi Rossii [Russia's Taxes] Association tried to estimate what taxes our average statistical enterprise had to pay and got the following approximate picture:

I. On profit

including:

1) on the profit of state, cooperative, public, and joint-stock enterprises;
2) on the profit of enterprises with foreign investments;
3) on the profit of the gambling business and of video salons and rental;
4) on profit from intermediary activity;
5) on bank income;
6) on income from insurance activity;
7) tax on exchange activity;
8) on excess wages;
9) on added value;
10) income tax;
11) on property;
12) excises;
13) additional payments on the profit tax;
14) on foreign economic activity;
15) special tax;
16) pension fund;
17) social insurance;
18) medical insurance;
19) employment fund.

II. Payments into road funds

including:

20) tax on the sale of fuel and lubricants;
21) excises on the sale of passenger cars for citizens' private use;
22) tax on users of motor roads;
23) tax on owners of transport facilities;
24) tax on the purchase of motor transport facilities.

III. Payments for the use of mineral and natural resources

including:

25) for the right to mine widespread minerals;
26) for the right to mine hydrocarbon raw materials;
27) for the right to mine other minerals, in addition to widespread ones;
28) for the use of water areas and sea bottom sections;
29) for the issue of licenses for the right to use mineral resources;
30) on the reproduction of the mineral and raw-material base;
31) forest taxes;
32) charge for water drawn by industrial enterprises;
33) charge for the disposal of harmful substances and waste;
34) forest fee;
35) land tax;
36) state duty;
37) transport tax;
38) fee for education;
39) for the maintenance of housing and the social sphere;
40) fee for the maintenance of the militia;
41) fee for civic improvements;
42) for operations with securities;
43) license fee for the right to produce and trade in alcoholic beverages.

IV. Other taxes and fees

including:

44) for advertisement;
45) for the resale of motor vehicles and computer equipment;
46) for the construction of facilities for production purposes in a health-resort zone;
47) fee for the right to use local symbolism;
48) fees collected by the motor vehicle inspectorate;
49) fee for the certification of specialists for the right to perform operations with securities;
50) fee for transactions concluded at commodity exchanges and during the buying and selling of currency;
51) fee for the cleaning of settlement territories;
52) for the licensing of exchange activity on the securities market;

53) for the licensing of the activity of investment institutions on the securities market;
54) for the testing and branding of articles and alloys from precious metals;
55) for the maintenance of students at special and rural vocational and technical schools;
56) registration fee and state duty for the registration of enterprises;
57) license fee for guard activity;
58) fee for the right to trade in goods on which excises are imposed;
59) for the issue of licenses to the right to notarial activity;
60) charge for the licensing of goods subject to excises;
61) patent duties;
62) fee for the parking of motor transport.

At present about 64 percent of the total enterprise income is spent on taxes. At the same time, world practice shows that the tax bite on the level of 45 percent of income is the limit, beyond which even simple reproduction is under threat. Examples of a beneficial effect of weakened tax pressure on the economy are no less known (the experience of the United States in the 1980's, the countries of Southeast Asia, and so forth).

We intentionally did not begin to indicate in the table how much needs to be paid on each individual tax. First, not everyone is engaged in exchange activity, or in the branding of alloys from precious metals. Second (and the main thing!), with the exception of the profit tax (12.4 percent), value-added tax (9.8 percent), income tax (5.2 percent), excess wage tax (3.9 percent), and deductions into pension (13.2 percent) and road (2.9 percent) funds, the endless multitude of other taxes comprise tenths of a percent each.

In this situation, for many types of taxes expenditures on servicing them greatly exceed their collection. The accountant must keep each of these taxes in his head. God forbid, if he forgets to pay any of them, fines and penalties can prove to be ruinous for the enterprise.

Probably, there is no need to explain to what the tax system existing in our country leads. As the saying goes, the results are on hand.

It must be admitted that the table presents by no means all the types of taxes, fees, and other payments made by enterprises (there is still a whole list of taxes on citizens!). With regard to their total number, one can be convinced that hardly any single tax service worker would be able to say it straight off.

Here the reader may have a question: "Excuse me, how did the authors of our tax system create such a situation and permit it to last for three and a half years? Did they not know all this? What are they doing?" Well, it is very difficult to imagine that they did not know all this. The above-mentioned Nalogi Rossii Association alone has since March 1992 appeared dozens of times in the central press and on television with analysis and proposals on these matters. Suffice it to mention the Concept of Tax Reform in the Russian Federation (1992) and the draft of the Russian Federation Tax Code (1994) put forward as legislative initiatives from Sverdlovsk Oblast and examined in the parliament and the government of Russia.

The following are the main ideas of these proposals: reduction in the tax pressure, sharp reduction in the number of taxes and simplification of the rules of their collection, and a shift in the center of gravity from "conventionally alternating" taxes (profit, value-added tax, and so forth), which rise in proportion to the growth of the enterprise's business activity, to "conventionally constant" taxes (property, use of natural resources, and so forth), which provide incentives for more active and efficiently operating enterprises.

With regard to the question as to what our tax creators are doing, we are afraid that the answer could definitively put the reader in an impossible position. We will begin with the fact that, according to the information that has reached us, it seems that the government, finally, has summoned up its strength and has prepared the initial version of the Tax Code. For now it is difficult to evaluate it, owing to the scarcity of information. From what is known, first of all, the sharp increase in the "obligatory" income tax rate, which will have a negative effect on the population's business activity, is conspicuous.

The abolition of some taxes, reduction in privileges, and indexation of funds excessively exacted from enterprises during their return can be included among the positive innovations. At the same time, as far as one can understand from existing information, on the whole the changes are of a cosmetic nature, the structure of and ideological basis for the existing tax system remain unchanged, and, consequently, the direction of its effect on the economy will remain.

Now to the question as to what the "fathers" of the existing tax system are doing. And so, one of them, Sergey Shatalov, who in 1992, in the era of the establishment of this system, headed the Subcommittee on Taxes of the Parliamentary Committee on Financial and Budgetary Matters, now also directs (in the rank of deputy minister of finance) the drafting of the Tax Code, only now it is the government's Tax Code.

*Government Seeks Legislation to End 'Tax Chaos'

954Q0228A Moscow IZVESTIYA in Russian
22 Jun 95 p 4

[Article by I. Savateyeva: "Authorities Make One More Attempt to End Tax Chaos"]

[FBIS Translated Text] **After many years of fruitless discussions on the imperfection of the Russian tax system the authorities are taking the first real steps to regulate and stabilize it. The government, working out the budget concept for 1996, conducted substantial and productive work on the regulation of relations between budgets at different levels. Now the legislators have made their worthy contribution to that common noble task by adopting the draft law on introduction of changes in the law of the Russian Federation on basis of the tax system in the Russian Federation in the second reading.**

There is no doubt that it is still too early to dot the i's in the matter of reforming the tax system. It will probably be possible to consider this matter finished, and then only in general terms, only with the adoption of the Tax Code of the Russian Federation. According to specialists, however, the introduction of such an epochal document may be expected in the very best case by the start of 1997. The draft law adopted by the Duma legislators, however, will probably permit the practical checking of numerous ideas inherent in the code possibly even next year.

Which of the proposed changes appear to be the most important?

The first one. The draft law provides for a significantly curtailed list of federal, regional and local taxes. In order to properly appreciate the significance of that step it is sufficient to note that today, according to the Duma Budget Committee, the Russian taxpayer has the pleasure of paying some 23 federal taxes and about the same number of all possible federal levies, along with more than 180 different types of taxes and levies introduced by regional and local organs of power.

The right of the latter, however, to levy their own taxes is guaranteed constitutionally. Mikhail Zadornov, a representative of the Budget Committee, however, considers that this right is not violated by the restrictions which are envisaged in the draft law. By the way, these restrictions are not exhausted with the introduction of the list of main taxes. It is also proposed that the rate of other taxes being introduced by regional authorities must not exceed two percent of the wage fund of enterprises, while the appetites of local organs of self-government are restricted to five percent.

For the purpose of lightening the overall tax burden it is also proposed to repeal a number of ineffective taxes: the special tax for the support of a number of branches, the tax on above-norm labor-remuneration funds, car sales tax, tax on use of the name "Russia," as well as on advertising and on operations with securities.

Another innovation boils down to the fact that the draft law establishes a strictly regulated order of introducing new taxes or changing the existing taxes. It is proposed to introduce new taxes only on the basis of a decision by legislative power and only from the start of a new fiscal year. Changes in existing taxes, however, can go into effect not earlier than a month from the moment of publication of such changes. A system is also prescribed for preparation of tax legislation: mandatory submission of conclusions of the government and the pertinent parliamentary committee.

The stability of the tax system will also promote the mechanism for interpretation of tax legislation being introduced by the draft law. An official interpretation can be given only by that legislative organ which adopted the corresponding enforceable enactment. Instructions of the Ministry of Finance, however, will be enforceable enactments only if their existence was envisaged by law in advance.

The change in the mechanism of collecting fines and correcting their amounts also appears to be an important innovation. Up to now the fines have been double and triple the amount in arrears now, in accordance with the draft law, the size of the fine will be 50 percent of the amount in arrears plus a penalty in the amount of the Central Bank discount rate. At the same time mandatory payment will apply not to the entire amount of the fines, as it does at present, but only to the amount that is in arrears. If the tax payer wishes to appeal the decision of the tax organs in court, he does not have to pay the fine and penalty until the court delivers its decision. If the tax organs are correct he has to pay additionally one half of the Central Bank discount rate.

It should also be noted that the draft law provides strict regulation and differentiates the duties of the tax inspectorate and tax police. The duties of tax organs include consultations with tax payers as well as delivery of methodological materials to the latter. The tax payer will be obliged to pay the tax only in those cases when the corresponding tax service first provides him with all necessary normative documents.

At the same time the lightening of the tax burden and expansion in the rights of tax payers are not the only priorities in the draft law.

Special attention is devoted in the document to the need for expansion of the tax base through liquidation of numerous and unjustified tax and tariff exemptions. In part, the draft law provides that the use of special taxation regimes in certain regions is impermissible. In the Budget Committee it is assumed that the presently established special order of tax relations with Tataria, Bashkiria, and Ingushetia leads only to the destruction of national unity. The draft law is also directed at the elimination of unregulated exemptions for individual enterprises and organizations. Mikhail Zadornov, however, believes that no less than two or three years will be needed for the successful resolution of this problem:

"There will never be an ideal tax regime, and there will always be a struggle for certain exemptions," chairman of the Duma committee believes. "Therefore the political leadership of the country, I have in mind the president, the government, and the Federal Assembly, must have a rigid and a consistent position with regard to the liquidation of unsubstantiated exemptions. Unfortunately up until now there has not been such a position."

Thus the draft law on introduction of changes in the law of the Russian Federation on the basis of the tax system in the Russian Federation establishes clear rules of the game in the sphere of tax regulation. Determination of concrete tax rates and their distribution among the budgetary levels—the federal, regional, and local levels—-will be made in the process of adoption of the appropriate budgets.

There is hope that the draft law will go into effect as early as in the autumn, after it is adopted by the Federation Council and signed by the president.

*Worries on World Diamond Market, Russia's Place in It

954Q0235A Moscow DELOVOY MIR in Russian 24 Jun 95 p 7

[Article by Larisa Ilina, DELOVOY MIR columnist: "The Diamond Family Fears a Collapse"]

[FBIS Translated Excerpts] **I can honestly say it was hard not to lapse into snobbery when I found myself in such brilliant company. The entire elite of the diamond sector—ministers in charge of mineral resources in the principal diamond-mining countries, directors of the De Beers Company, presidents of diamond exchanges and banks financing the mining and processing of precious stones, editors of specialized journals known throughout the world....assembled in our country for the meeting, "The New Russia in the World Diamond Business." The occasion for the meeting was most festive—the 40th anniversary of diamond-mining in our country. In just the four decades that have passed since the discovery of the basic deposit in the flood-plains of the Vilyuy River in Yakutia, a powerful industry has been created, which has brought Russia into one of the top places in the world. (See DELOVOY MIR of 17 June 1995) The "Diamond Summit"—it took place in Moscow and Yakutia and ended only yesterday—was also an act of recognition of our country's role in the sector, and an occasion for the world diamond community, settled at a large round table in the "Presidential Suite," to look one another in the eye and exchange opinions on the situation that has formed on the world market. As we know, it is a very difficult one.**

DELOVOY MIR readers know about the structure of the world diamond market from our regular publications—it is rigidly regulated by the De Beers Company, whose system includes all the major producers of the precious raw material and all the main processors and traders as side-holders (see DELOVOY MIR for 16 May 1995). The single-channel system of diamond sales through the De Beers Central Sales Organization (CSO) has proven its efficiency in past decades by the indisputable fact that the price for such a specific commodity has not once fallen. Selling 95 percent of its raw diamond export through the CSO, Russia occupies, in the De Beers sales, slightly over one-fourth of the total volume, which, it is assumed, corresponds to its share in world extraction. Cooperation has been achieved for over 35 years, through continually renewed five-year agreements. The period of the latest agreement is up this year.

But will the next one be concluded?

As Gary Reif, CSO managing director, noted in his speech, today, for the first time in many years, a situation has formed in which cut diamonds of all classes are cheaper than a year ago, when they had to be sold on credit, in a word, when the market turned into a buyer's market, and not a seller's. "The question we must ask ourselves is the following one: Why has a situation like this formed at a time when all the indicators of our business attest to the fact that the situation should improve? Representatives of the diamond markets are unanimous in their answer: In their opinion, relations between De Beers and the Russian diamond industry are close to severance." Hence the nervousness on the market and diamond dealers' attempts to liquidate their reserves, which naturally does not contribute to optimizing prices.

In the words of Nicholas Oppenheimer, representative of a famous family and one of the directors of De Beers, "cooperation should remain a key factor. Everyone participating in this totally peculiar business knows how inapplicable here are the rules of a game in which a loss for one party is equivalent to a gain for another. In order for the diamond industry to continue to play an important role in the economy of the producer-countries, we must realize that what harms the industry as a whole harms everyone engaged in it. And what is profitable for the producer is profitable for all."

Anxiety about the threat of a collapse of the market was heard in the speeches of other guests as well. [passage omitted]

In general, one gained the impression that the entire world diamond community is trying to persuade someone to cooperate and not to destroy the market. But who? From the words of Mikhail Nikolayev, president of Yakutia, it was clear that the republic, where 99.8 percent of domestic diamonds are mined, prizes the stability of the market. Andrey Kirillin, president of the Almazy Rossii-Sakha Company, which, strictly speaking, ensures this entire "gross output," stated unequivocally: "Every year it becomes increasingly difficult to maintain market stability. New diamond-mining regions are increasingly appearing and technology is being perfected, which leads to a steady imbalance between supply and demand. The threat of production exceeding consumption is therefore quite serious today. The situation may be resolved only with the coordinated actions of raw and cut diamond producers worldwide. In our opinion, most acceptable for everyone is to extend our agreement with the De Beers Company on further cooperation, with both sides improving its future conditions. I wish to announce to the participants at the meeting that our company will take all the measures depending on it for further development of the diamond-mining industry in Russia, strengthening of the world diamond business and the fruitful collaboration of its participants."

Indeed, Yevgeniy Bychkov, chairman of Goskomdragmet, emphasized in his concluding speech: "Our main slogan was, is, and will be: stability of the world diamond market in the name of our own well-being and in the name of the well-being of the entire diamond community."

Well, if everyone is "for" it, then just why is everyone nervous and feeling the threat of the collapse of the diamond family? There are facts which are more convincing than declarations. For example, such an "open secret" as the mass export of diamonds from Komdragmet's reserves, outside the single-channel CSO system, sometimes as "white-collar contraband," sometimes in the guise of raw material supplied by the customer (and this, given the staying power of the domestic Kristall system). Indeed, the very fact of the unusually long drawn-out and painful course of negotiations on the new agreement with De Beers makes the market start to think, especially since this is going on against a background of statements, handed out from government authorities from time to time, on the advantage of setting up "our own CSO." It seems that the members of the diamond family, anxious about the future of the market, do not altogether believe in the cabinet's future way of thinking.

When speaking in the "Presidential Suite," Anatoliy Chubays, first deputy prime minister of the RF Government, said: "We are convinced that the sector is capable of increasing the yield, increasing the turnover, increasing the rhythm, and increasing budgetary revenues. Moreover, in our estimation, it is a question of growth, not by percentages, but by factors.... Our main task is to increase the added value in this sphere, with the more efficient development of the cutting industry, which has grown several-fold in the last five years and should grow in the future. We feel that increasing the scale of jewelry work in Russia and developing trade are no less significant."

All right, developing a processing industry is the right and the natural striving of every country. But promising to raise the yield "by factors," by producing a finished consumer product, seems to me slightly unfounded optimism. To start with, one should analyze the reasons for the crisis at the enterprises of the "Jewelry Industry." No rise in consumer demand for expensive adornments will take place in Russia until the economic situation is straightened out. Count on export? But those who have seen the showcases of jewelry shops abroad know that it will be unusually difficult, if it is possible at all, to find a niche for our products on this market.

Obvious divergences in the views of producers and government officials on diamond-mining strike the eye. The former talk about intentions to mine as much as they can sell without accumulating stock. The latter would like to see a constant increase in mining. Yevgeniy Bychkov talked about the desirability of the presence of foreign capital at all the links of the technological chain, including mining, with a corresponding division of the products. Vyacheslav Shtyrov, vice president of the Republic of Sakha, expressed the opinion of the producers and the Yakutia leaders this way: "There is no need to invite foreign investors directly into diamond-mining. We can manage for ourselves."

Incidentally, the foreign investor is by no means "running at full tilt" to the sector. As the AMRO-Bank representative noted, the reason lies above all in the lack of clear-cut knowledge of it. Having expressed complete understanding of Russia's need for financial resources, including the need to improve the mining infrastructure, Willemsen said that the worst choice in this connection would be a desire to sell precious assets in a short time. This would inevitably entail dramatic consequences, in the form of a drop in prices and the ruin of the market. The best choice would be planned financing using the diamond assets as security. Moreover, it could be carried out with the participation of the government, contractors, and banks. AMRO-Bank even offers its services as a prestigious organization, able even to play the role of a cooperation catalyst. In its opinion, the variant in which the De Beers CSO participates in surrendering the asset-security to it is not ruled out.

In any event, the search for solutions continues. The regular working conference of representatives of Russia and De Beers on coordinating the terms of the new agreement was held on Friday.

*Official on Upcoming Import Tariff Increase

954F2695A Moscow SEGODNYA in Russian 28 Jun 95 p 3

[Article by Elmar Murtazayev: "Government Experts Agree With Predictions of Increased Prices on Food Products: Losses of Importers May Be Compensated Only Under Conditions of Stable Decline in Dollar Exchange Rate"]

[FBIS Translated Text] The growth of prices on food products after the increase in customs tariffs and the introduction of VAT [value-added tax] on the import of foodstuffs may comprise 25-30 percent, believes Sergey Tsyplakov, chief of the RF [Russian Federation] Government Department on International Cooperation. In an interview with our SEGODNYA correspondent, he stated that the predictions of the Moscow government appear to him to be "worthy of attention." We will recall that, according to the computations of the Moscow government, the growth of prices in the next two months will comprise 25 percent on poultry meat, 45 percent on beef, 30 percent on butter, and 60 percent on sugar.

Mr. Tsyplakov sees nothing sensational in the current increase of customs tariffs. In fact, in his opinion, this is a return to the customs rates of last year. However, after the introduction of import duties on food products in the summer and fall of 1994, a number of city and kray administrations managed to have them reduced on meat-dairy products and vegetable oil. This time, the Minselkhoz [Ministry of Agriculture] has managed to push through a decision which lobbies for the interests of the farm producers. The limiting measures are not exhausted merely by customs duties. The law "On Changes and Amendments to the VAT," adopted by the State Duma at the end of April, now provides for the introduction of a 10 percent tax on the import of food products.

Mr. Tsyplakov sees two main reasons for the growth of customs duties. The first, in his opinion, "is the desire of the government to support the domestic goods producer." By increasing the customs tariffs, which means a growth of prices on imported foodstuffs, domestic agricultural producers will have the opportunity to also raise prices. This concerns primarily the increase in customs duties on meat-dairy products and vegetable oil. The second reason is the fiscal interest of the state. The intent of the government, in the words of Mr. Tsyplakov, is simple: By increasing duties on food products (primarily citrus fruits, bananas, and a number of other fruits), to increase the volume of monetary revenues to the budget.

Nevertheless, the effectiveness of this step evokes certain doubts in the mind of the department head. In the opinion of Mr. Tsyplakov, under conditions of a sharp decline in production of food products in Russian agriculture (for January-May 1995 the decline in production of meat comprised 16 percent, of milk—14 percent, and of eggs—10 percent), an increase in the level of customs duties may lead to "an unjustified growth of prices" and a growth of "shortages on the domestic market." Moreover, in view of the continued decline in production predicted by the Minekonomika [Ministry of Economics], this measure appears "somewhat risky."

The conclusion of proponents of this measure regarding the fact that "reduction in the exchange rate of the dollar must compensate losses of importers," in the opinion of Mr. Tsyplakov, is correct only if the tendency toward growth of the ruble is long-lived.

As Mr. Tsyplakov believes, an increase in the customs duties will deal a blow primarily to the large industrial centers—Moscow, Petersburg, and the cities of the Urals, where import comprises around half of all the consumed food products. Moreover, the Far Eastern regions of the country (Khabarovsk Kray, Primorye) which, according to the appraisal of the department head, import most of their food products from neighboring China and other countries of the Pacific region, have found themselves in a difficult position. Now these regions will be forced to bring food across the entire country, which under conditions of high transport tariffs leads to drastic price increases. Such a situation, stated Mr. Tsyplakov, has already evoked a wave of requests by heads of Far Eastern administrations to review the decision. Under these conditions, believes Mr. Tsyplakov, quickly restructuring commodity shipments is a very difficult matter. The department head also has no confidence regarding the increase of revenues to the budget. The increase in duties may lead to a decline in the overall volumes of import, which will entail a reduction in the sum of customs collections.

Nevertheless, the department head does not doubt the need for a policy of protecting the domestic agricultural producer, considering the growing dependence of the domestic market on the import of food products (the growth in import of foodstuffs comprised 10.2 percent last year). However, in the opinion of Mr. Tsyplakov, this problem must be solved by other means: Through elimination of the price imbalance between agriculture and industry; through increased control with the aid of strict regulations of product certification during import, as well as through the introduction of quantitative limitations (quotas) on import. At the same time, Mr. Tsyplakov evaluates the increase in the rate of the customs fees on sugar to 25 percent as "a fully rational measure, directed at providing work for the domestic sugar processing industry." The rate on the import of raw sugar remains at its former level (1 percent), and through the agreements concluded with Cuba "the government will be able to ensure the stability of sugar deliveries."

*Officials Discuss Factors Encouraging Domestic Investment

Central Bank Deputy on Stabilization

954E1137A Moscow DELOVOY MIR in Russian 12-18 Jun 95 p 32

[Article by Andrey Kozlov, deputy chairman of RF Central Bank: "Financial Stabilization Is Quite Realistic"]

[FBIS Translated Text] We see the situation in the financial sphere as quite encouraging. The December-February investment peak is past and there is every reason to believe that we can reinforce the present balance in the next half year and, by the end of the year, achieve the indicators called for in the government and CB [Central Bank] Memorandum.

I think everyone ought to be aware of the provisions of the Memorandum. It calls for a rigorous financial-budget policy, limited issue activity by the CB, reduction of inflation to 1 or 2 percent by December, and inflation-free budget financing. So far, all intermediate indicators are being met, and credit for this goes not only to the CB but also the government, which is holding firmly to policies that will reduce budget subsidies.

We need to realize how important all this is. Any macroeconomic measure always has two effects: the short term, in the first one or two months after a decision is made, and the longer term, which begins to manifest itself half a year later. If the decisions are not well thought out, the consequences can be explosive.

To be more specific, let us recall the situation in the currency market last fall. Last summer, as we know, under pressure from the Duma major credits were extended to agriculture and industry. The short-term effect was that the financial market, saturated with rubles, reacted with a sharp jump in the demand for currency. The dollar's exchange rate literally skyrocketed, followed by Black Tuesday. Over the longer term we got cost inflation, high inflationary expectations, and higher prices. These consequences were not overcome until this March. Now the CB is keeping a tight rein on the money supply, and the macroeconomic indicators stipulated in the Memorandum are still within allowable limits. There is reason to believe that over the next six months at least there will be no problems on the macroeconomic level.

We must admit that it is hard to keep the situation under control, because in the financial market it sometimes changes faster than we count on. Moreover, the situation now is such that any sharp changes either for the better or the worse are equally dangerous. Right now, for example, the CB is concerned about the situation in the currency market—the premature stabilization of the dollar is exchange rate, which was planned for August. It may be that subjects of the market decided to have faith in the financial stabilization plan, and that is good. But a factor that was negative for the market immediately showed itself. The banks and their clients who had faith in the national currency began to sell dollars vigorously, there was a dumping of currency, which the CB had to buy in order to maintain balance, and issue rubles. Again there is a danger of excessive increase in the money supply, although, I repeat, at the moment we are within acceptable limits. In order to avoid flooding the market with rubles we are having to tighten reserve norms, and this immediately results in a conflict with commercial banks. You can see that one problem leads right to another, because in economics everything is tightly interlinked.

Increasing the ruble supply also brings on another factor: the savings of the people, concerned with how to invest their money to greatest advantage, increase in absolute terms. And a high level of supply here boosts demand: The danger of new MMM's arises. Hence, we have to encourage the passage of juridical acts in order to protect the consumer and the market. Again, everything is interlinked.

That is why it is so important now to swiftly push the share market. If sound, well-designed financial instruments come on the market—that is, securities—and if an effective infrastructure is created to ensure high liquidity and protect shareholders' rights, it will be profitable to acquire shares. The use of domestic savings is an important tool of the government's investment policy. Top priority should go to activating domestic investment resources and, after that, foreign investment. Major emphasis should go to attracting the population's money to buy state securities, which the Finance Ministry ought to start issuing this summer.

There has also been some success in another sphere—the GKO [state short-term bonds] market. Earlier, GKO's were placed for high earning rates; now these rates are falling steadily. Over six-month terms, earning rates are about 170 percent per annum. By way of comparison, rates on the best investment projects range between 50 and 100 percent. What happens next, I think, is clear: As soon as earnings from speculative currency and GKO transactions approach these limits while continuing to fall further, competition will begin between long-term investment projects and short-term financial instruments of the ruble market. As soon as earnings from currency market transactions fall below 100 percent per annum, investments will go into normal industrial projects. There is a chance that this can be achieved in the next two or three months.

As you know, the Law on the Central Bank went into effect on 4 May, giving the CB rather broad leeway to improve the financial markets. For over a year now the CB has been improving monetary payments in the RF. The effort has enlisted the aid of major international financial organizations, and the preparatory stage of the process is nearing completion. It will not only affect the system of mass interbank payments but also the share market. Unfortunately, not one bank in Russia today is able to organize a mass, statewide system for fund transfers involving small securities day to day. But the CB is much closer to solving the problem. We hope the problem will be solved this year and that the services will be provided to anyone who wants them.

In conclusion let me return to the state securities market again and dispel people's fears of new financial pyramids and rising domestic debt. I think GKO's should not be compared with a pyramid but rather with a column that rises straight up rather than to the side. Instruments of this sort are widely used in the West. Today, GKO's circulating in the market have a medium payoff period of 70 days. That is not much. I hope that in the near future the government will make a decision on medium-term securities, as announced long ago. Right now, the possibilities are quite realistic.

*Securities Commission Deputy on Market Organization

954E1137B Moscow DELOVOY MIR in Russian 12-18 Jun 95 p 32

[Article by Dmitriy Vasilyev, deputy chairman of the Federal Commission on Securities and the Share Market: "Capital Will Not Go For an Disorganized Market"]

[FBIS Translated Text] After having completed privatization, joint-stock companies continue to experience a shortage of investments. Our studies show that more than a third of them are not in a position to cover their expenses from earnings. Everybody needs money these days. Some enterprises are standing idle or cutting production due to a lack of circulating capital. Others are having problems selling their products. Still others, although they are making ends meet, need an additional infusion of investment to expand or restructure production.

Are there available funds in the capital market? Of course there are. First, the funds of banks and other financial institutions capable of providing credit to industry. Next, funds from the public, which we estimate at about 20 billion dollars. Next, funds from foreign investors. And, of course, a certain amount of "flight" capital which our businessmen are taking abroad. Our task is to create conditions enabling these funds to turn into investments. This problem is being worked on by the government and the president, and also the Federal Commission on Securities and the Share Market.

The situation in Russia is gradually changing today. Despite difficulties, production is reviving in metallurgy, and housing construction is growing rapidly. In the first quarter of this year, 56 percent more housing was built than in the first quarter last year. Russia's exports continue to rise rapidly. Under these conditions, are there prospects for portfolio investors? Will the market value of shares rise? Everything will depend on how actively enterprises are restructured. According to our data, in the past year almost 60 percent of enterprises changed their marketing strategies. Some changed their products lists.

Next question: Do the joint-stock companies want to attract investments? About 10-20 percent of the enterprises intend to issue new shares late this year or early next year. But issuers have to keep in mind that now they are being closely studied by investors; investors are the ones who will determine the attractiveness of any securities that are offered. In the regions, for example, about 30 percent of the directors are willing to turn the controlling package of shares over to investors if they will bring in capital.

There are several factors inhibiting investment at the present stage. First, a shortage of limited information, including information that goes abroad. Unless foreign capital can get a full picture of the risk, it will not go for the Russian market. Next, the poor protection of the rights of investors' property. As an example, consider the recent scandals involving the watering of capital in order to reduce investors' share. Next, enterprises' inability to issue securities, draw up business plans, and so on. Next, the low liquidity and poor transparency of the Russian market.

Now, what needs to be done? We have drafted a list of amendments and changes to the well-known Government Decree No. 601; these will toughen up requirements on enterprises' disclosure. And changes to Decree No. 78, requiring brokers to disclose information about their deals.

Another aspect is the new prospectus form, designed to international standards. It has been worked out, and I hope that at the next meeting of the Federal Commission we can adopt it and then disseminate it. This matter is also reflected in the Law on Securities, which was passed on second reading in the Duma. Questions relating to disclosure were also stipulated there.

With regard to the development of the infrastructure and the creation of share market mechanisms we endorsed the idea of creating a large registration corporation, which is being developed jointly with the Bank of New York, LUKoil, international financial organizations, and the European Bank. We intend to keep on endorsing the creation of major registrars capable of protecting investors' rights.

We are now drafting standards on registration activity, calling for the standardization of all documents involving share re-registration and requirements on transferring rights of ownership and regulating fee levels. Two things are of interest to enterprises here. First, many enterprises are not complying with the president's edict on transferring the register-keeping to the registrar. Now the requirements are being made stricter: Keeping of the register will have to be turned over to a large, independent registrar that guarantees investors' rights. This also applies to federal authorities.

Procedures for increasing authorized capital will also be changed. We have prepared a draft edict, approved by the Federal Commission, which will come down hard on anyone who tries to steal. This will help prevent the watering of capital and violations of investors' rights. If any violations are detected, the case will go to court, where the Commission will act as a third party and uphold the court's decision.

And finally, the aspect relating to enhancing the market is transparency and liquidity. Nearing completion right now is the creation of nonexchange, organized trade in securities. It should go into operation through computer networks in late June. The European part of Russia is already hooked up to the system. The next step is to organize connections with the Vladivostok Share Stock Exchange and develop a unified, nationwide system. I think this will substantially enhance people is faith in Russia is share market.

And now let me answer some of the questions I have received.

Some of them relate to sectoral problems involving new issues. In metallurgy, for example, the question of mineral rights is directly linked to the attraction of investments. Similar questions arise in other sectors. I think they need to be resolved separately, by sectors, and in the aggregate within a given sector. In order to discuss and formulate decisions, of course, it will be well to convene specialized sectoral conferences, participated in by the Federal Commission on Securities and the Share Market.

Next, the question of pension funds, our attitudes toward them and their prospects. Right now, we think, pension fund regulation is not getting nearly enough attention. Let us be frank: Things are very bad. We think that pension funds constitute a normal, long-term investor that must be worked with. Our experts are studying this matter as well as others. On the scale of priorities, it ranks near the top.

The next question: Does it not seem that the banks will soon crowd the financial brokers out of the share market? Not at all—although, certainly, the banks will have their own interests in the market. There will be dealers and there will be brokers, each in their own niche. There is something else we can expect: People who will want to set up investment banks, of which there are so few today. We have drafted a plan providing for the operation of what are called investment brokers; these are similar to investment banks.

I have also been asked about our attitude toward the proposal of a bank consortium (meaning credits to the Russian Government secured by state packages of shares in high-earning sectors—DM). I can only say that negotiations are going on in this regard, and the government's and the bankers' positions are coming closer together. What might happen is that it will not come to a matter of a consortium but rather open auctions providing for open participation by both Russian and foreign investment institutions aspiring to act as an intermediary in the sale of particular enterprises. The open competition principle is a position

I have always endorsed. To me a consortium is nothing more than an initiative group that proposes to take part in privatization in the capacity of commissioners.

Finally, a group of questions involving violations of stockholders' rights. These relate to the Bratsk Aluminum Plant and Komineft. I am convinced that counting on state bureaucrats to resolve these conflicts is a waste of time. What is needed is a willingness to meet half way, an initiative by those who actually participate in the market, turning the matter over to the court and at the same time submitting all materials on the case to the Federal Commission on Securities and the Share Market, so that the Commission has a chance to express its official position. I believe the court will take account of the opinion of such an authoritative body and will hand down a just ruling.

*Property Committee Deputy Assesses Yeltsin Edict

954E1137C Moscow DELOVOY MIR in Russian 12-18 Jun 95 p 33

[Article by Alfred Kokh, first deputy chairman of the State Property Committee: "Privatization Strictly Regulated"]

[FBIS Translated Text] First I would like to focus on the president's recent edict "On Ensuring Guaranteed Budget Revenues From Privatization." What is the gist of the edict? First, it finally creates a single understandable and precise mechanism of bans on privatization. A specially created commission whose members include representatives of economic and sectoral departments is supposed to determine the list of enterprises that are not subject to privatization, or a list of share packages that are fixed in state ownership. Once the list is approved by the government—scheduled for 11 June—all previous normatives expire.

A second important point is that the government gets two months to draft a conception of the transfer of securities as security, or trustee management. This was the president's response to the proposal of a consortium of Russian banks. Their credit potential, we believe, can be made full use of. The work being done with the banks gives reason to believe that in no more than two months we can submit and agreed-on conception of interaction for the president is approval.

A third aspect: We are finally getting away from the old method of determining the start price, and now the president has directed the Commission to work out a method of determining the start price, after which sellers of share property can establish higher start prices based on new normatives. We think that low start prices were justified during the voucher privatization period. Now, as we make the transition to the monetary stage, the old approach needs to be revised.

Finally, the issue of allowing privatized enterprises to buy the land they are located on has been resolved. In the process, the land's purchase value goes down 20-fold. The old price, which was set at 200 times the land tax in accordance with the government decree, was too much for the enterprises, and so there were actually no real land sales. The new price will make it possible to get things moving.

One important point is that the land purchase procedure includes a mechanism for converting state debts to enterprises into land. As we know, many enterprises are creditors of the budget, and the state owes them a substantial amount—about six trillion rubles. The president is edict orders the development of a mechanism that will make it possible to convert state indebtedness into special obligations which can be used as a means of settlement.

The president has also set new normatives for the distribution of funds from privatization. From the sale of shares that are federally owned, 55 percent of the proceeds will go to the federal budget. The logic here is as follows. In accordance with the Federal Law on the Budget, 55 percent of funds from the sale of oil shares used to go to the federal budget. Because other normatives were set for other enterprises, it was decided to equalize the situation. But because we cannot change a federal law, it was decided to change the normatives for the other sectors. Doing so infringed on the interests of local budgets, so the edict provides a mechanism to compensate their losses: In the process of land privatization, 80 percent of the proceeds will be turned over to them.

These are the basic provisions of the edict. About 7,000 money auctions will be held in the various regions in 1995. For comparison, there were only 14,000 in the three preceding years. It is anticipated that revenues to the budget should run to 9.1 trillion rubles.

We also have proposals on further intensifying sales of shares and increasing their market value. In particular, we plan to increase the guaranteed share for enterprises. We also have plans to privatize credit and financial institutions, but that is farther down the line.

*'Aeroflot' Bank Introduces Securities Backed by Gold

954E1136D Moscow SEGODNYA in Russian 14 Jun 95 p 2

[Article by Mikhail Shabalin: "What Is the 'Gold Contract' of the Aeroflot Bank?"]

[FBIS Translated Text] The problem of economic literacy is now very acute in the country. Without the fundamentals of special knowledge and minimum economic erudition, it is difficult to expect that it will be possible at least to retain the money you have earned, not to mention make it work for you. The economic situation changes rapidly, new financial instruments appear, and old ones often lose their attractiveness.

Last year the American dollar was the most widespread and convenient instrument for keeping money. As compared with the rapidly falling ruble, the dollar, nevertheless, was relatively stable and it seemed that no special knowledge was needed to use it as a financial instrument.

Today the situation has changed. The rate of the dollar has been fluctuating for one and a half months. It is quite possible that this signifies the beginning of the end of the era in which the dollar was a money saving instrument. It is necessary to look for new ways of investing money. Today it is important to make the correct choice of a financial instrument convenient for you, for which it is necessary to know precisely its advantages and shortcomings, and for this specific knowledge is needed.

A regular or time deposit is the most widespread method. It has been well known even since pre-perestroyka times. Money is deposited for a term stipulated in advance at an interest. However, difficulties arise here. First, depositing money in a bank, you cannot take it back before the stipulated date in order not to be deprived of interest. Second, if you want to be sure that your money will be returned to you, you will take it to a reliable bank, but such banks do not pay a high interest on deposits. Giving one's money, even at a high interest rate, to dubious companies is risky.

However, as the market of banking services develops, new financial instruments appear. Of course, they, like all new things, usually represent long-forgotten old things. This, however, is their merit rather than demerit. In the sphere of finance it is better to rely on solutions which have already been tested.

Recently, the Aeroflot Bank, one of Moscow's major banks, announced its readiness to offer a financial instrument new for Russia. The appearance of a new opportunity to save money arouses heightened interest in and a great need for full and professionally presented information. Therefore, we turned to Sergey Aleksandrovich Yablochkin, chief of the Administration of Stock Exchange Transactions of the Aeroflot Bank, with a request to explain the mechanism of operation of the new instrument:

The Aeroflot Bank has begun a large program for the issue of securities backed by gold, which can be used as a powerful saving instrument. For ages gold has been the universal equivalent of value—"absolute money." Foreign consultants on financial matters advise their clients to keep no less than one-fourth of all their money in gold, because this is the only absolutely reliable way of insuring themselves against any financial unexpectedness. The gold program of the Aeroflot Bank is intended to enable wide strata of the population to make use of the characteristic of gold to retain its value under any circumstances.

According to the legislation in effect in our country, citizens can own gold in the form of jewelry ornaments, but only large organizations, which, like the Aeroflot Bank, have received a special license from the Central Bank, are permitted to operate with gold ingots. If not for this law, who knows, we would have begun to buy dollars in order to save our money and would not have preferred the old tested method to them—a gold ingot in the mattress or in the bank store room. However, today it is possible to use gold as a means of saving depositors' money, and the Aeroflot Bank has developed a special program for this.

Now anyone can come to any department of the Aeroflot Bank, or to any of its 16 affiliates located all over the country, and deposit his money in gold, concluding the "gold contract." The "gold contract" gives the depositor the right to receive on demand the money equivalent of the value of a certain amount of gold. This amount is determined at the moment of conclusion of the "gold contract" in the following manner: The sum of money deposited by a person is converted into U.S. dollars and the number of grams of gold which can be bought on the London Exchange on that day for this money is put down in the contract. When the depositor closes the account, the dollar price of the amount of gold put down in the "gold contract," which again is determined according to the quotation of the London Exchange on the date of closure of the account, will be converted into rubles at the rate of the Moscow Interbank Currency Exchange and paid out immediately. Thus, the depositor will protect his money not only against the devaluation of the ruble, but also against leaps in the rate of the dollar, and will receive profit from the higher price of gold on the world market. Of course, he will have to choose a day for the closing of the account, so that profit is maximal, but since, as is well known, the price of gold on the world market, on the average, rises stably, this will not be difficult. In addition to the "gold contract," the depositor—a physical person—will receive a certificate, and the juridical person, a gold note certifying that the bank has received a certain sum of money from it. The "gold contract" is inscribed with its owner's name, but it can be transferred to another person by making a special superscription attesting to the act of transfer. It is possible to conclude the "gold contract," as well as to present it for payment, in any of the departments, affiliates, and representative offices of the Aeroflot Bank, which makes it possible to safely transfer one's money throughout the country.

To back deposits, with the money received the Aeroflot Bank will buy physical gold, which is a reliable and liquid backing. A reserve amount of gold has already been bought by the bank and, as deposits are received, this reserve will increase.

Thus, the gold program of the Aeroflot Bank will enable all citizens to open savings accounts on demand, which are not only reliably guaranteed against inflation, but can bring quite a decent income—bigger than an ordinary income on a deposit. For example, in January 1995 the profitability of such a deposit could reach an annual interest of 200 to 300 percent. It should be noted especially that gold quotations are set strictly according to the results of auctions on the London Stock Exchange—the offered program does not leave any opportunities for any juggling. The "gold contract" will save your money and you will be able to use it at any moment, as was the case previously when you kept money in a savings bank and were not afraid of inflation.

The information telephone of the Aeroflot Bank is 232-39-03.

*Shipyard Activity Highlighted

954E1135A St. Petersburg SUDOSTROYENIYE in Russian Apr 95 No 4, pp 32-35

[Article prepared by A.N. Khaustov under rubric "Information Department": "At the Shipyards"]

[FBIS Translated Text]

Vyborg Shipyard Joint-Stock Company

The yard's production program again includes timber/packet carriers. Construction was completed on the lead vessel of a new series designed by specialists of Baltsudoproyekt TsKB [Central Design Bureau] (Design Project 15750)[1]. The vessel's name is Kapitan Lus and she will enlarge the Northern Shipping Company fleet. The timber carrier is intended for transporting packets of lumber and round timber, heavy-freight containers, bulk cargoes (including grain and coal), as well as metal articles and pipes.

The motorship Kapitan Lus is a single-screw, single-deck, triple-hold vessel with aftercastle and long forecastle, icebreaking stem and simplified cruiser stern. For the first time in domestic shipbuilding, a communications equipment complex has been used on the vessel which meets the requirements of the Global Maritime Disaster Communications System. The vessels are being built for the KM [star symbol] L1A1 (timber carrier) class of the Russian Maritime Register of Shipping.

Basic Data and Characteristics:

Maximum length, m	98.2
Maximum beam, m	17.6
Amidships depth, m	7.8
Summer loadline draft, m	6.7
Displacement, t:	
summer loadline	7,910
light	3,242
Deadweight with loadline draft, t	4,620
Cargo-carrying capacity, t	4,125
Container capacity	241
Speed fully loaded, kts	12.5
Main engine output, kw:	
maximum continuous	3,360
operational	2,780
Operating range, miles	5,000
Number of cabin berths	22

Construction of the Kapitan Lus-Class series of timber carriers will help accomplish many tasks of shipping timber, general, and container cargoes in Far North areas and will contribute to revival of the Russian Fleet.

Lazurit Central Design Bureau AO

A complex of specialized vessels is being created in the shipbuilding sector for developing Russia's new offshore gas fields. Having great experience in submarine shipbuilding, the Lazurit Central Design Bureau (Nizhniy Novgorod) has won the right to develop five out of six design projects in a competition among many design organizations of Russia and Ukraine. The engineering designs of three vessels in support of laying undersea gas pipelines from Yamal Peninsula to the continent across the Baydaratskaya Inlet of the Kara Sea already had been developed by the end of 1994 based on an assignment of the Gazprom AO [joint-stock company]. They consist of a suction-tube dredge, self-propelled soil-transport vessel, and research diving ship. The first is to be built at the Zvezdochka NPO [Scientific Production Association] and the other two at the Krasnoye Sormovo Yard AO. In addition, it is envisaged creating a vessel for undersea gas pipeline maintenance and a suction dredge with hold.

The Sevastopol Korall Central Design Bureau is designing the sixth vessel, a pipe layer.

The Lazurit Central Design Bureau also is proposing to create special undersea complexes for gas production on the shelf of Russia's Arctic seas and is developing corresponding advance designs.

Admiralty Yards GP [State Enterprise]

Products of the enterprise's specialized Admiralty Small Shipbuilding Yard Subunit (Shop No. 11) are expanding. Having begun with Litek pleasure rowing boats and Stringer yachts, the shop presently has gone over basically to producing six kinds of Master-Class boats. Two of them, Master-280 and Master-400, are being made in series and have a certificate of quality; Master-230 is the smallest of the series, designed for two persons; Master-390 is a seagoing hydroplane and the most comfortable boat; Master-600 is the largest flat-bottom boat with one-tonne displacement; and Master-570 is a seagoing boat meeting European standards (it is planned to produce her with the participation of the Finnish Fantek firm). In addition to the domestic market, boats already have been supplied to France, Finland, Holland and Argentina. A total of around 600 Master-Class boats had been manufactured by the summer of 1994.

Oka Navashino Shipyard AO

The enterprise has set a course toward putting out a new product—bulk oil-carriers. Roskap Tanya, built last year for a Russian-Scandinavian joint venture, is the lead non-self-propelled barge (construction number 1301) for transporting oil products. Her cargo tanks are two horizontal cylinders disposed along the vessel and partially sunk into the hull; the pump room is in the aftercastle. One kind of oil product can be transported at the same time. The possibility of moving the barge by the push method is envisaged along inland waterways and in sea basins.

Construction of containerships is another promising direction. The yard has begun preparing production for creating Design Project 00220 containerships.

Zvezdochka NPO

Mezen-Class floating metal T-shaped berths are one kind of product of the Zvezdochka NPO. The berth is formed from seven separate pontons, provides anchorage for vessels displacing up to 5,000 tonnes, and supports cargo operations, the supply of water from shore to ship, and telephone communications.

Basic Characteristics of Berth

Length, m	
berth with bridge	184.5
access	169.5
berth	146.1
bridge	17.6
one ponton	36.7
Width, m	
access	8.2
berth	10.3
Depth, m	2.3
Light draft, m	0.62
Displacement, t	
entire berth	1,487
one ponton	165

The berth is set up on a water area protected from wave action (maximum wave height 1.5 m) and allows considerable fluctuations in water level during rising (8 m) and falling tides (3.5 m). The berth's pontons are articulated with each other and with the access. The berth includes anchor, mooring, and towing arrangements, masts and stanchions for lights, and connecting panels between pontons. Mezen-Class berths are being operated successfully under Far North and Far East conditions.

Yaroslavl Shipyard AO

By September of last year the yard stopped building Design Project 14891 river oil tankers ordered by the Volgotanker Shipping Company. Initially the shipping company figured on building 24 vessels, then the order was reduced to 10 in view of financial and general economic problems, and then financing stopped entirely. The operation of such vessels proves to be unprofitable in the existing economic situation; the shipping company required tankers that were more general-purpose, for mixed operation. The lead order obviously will be completed and the rest will be taken to launch readiness. One option in deciding their fate is to refit them under a modernized design project for operation in coastal sea areas.

Under these conditions the yard is concentrating efforts on preparing production for building a new order—a Merkuriy-Class fast air-cavity patrol craft for the Customs Service. An agreement has been concluded initially for three vessels.

Construction continues on fish freezer trawlers under modified Design Project 503. One of them, Ekarma-1, was built for the Moscow Ekarma Closed Joint-Stock Company and her operating area basically is the Sea of Okhotsk and Bering Sea (port of registry, Nevelsk).

Central Design Bureau for SPK [high-speed passenger vessels] imeni R.Ye. Alekseyev AO

By assignment of the Lena River Shipping Company, specialists of this Central Design Bureau have developed preliminary designs of fast dynamic-air-cushion passenger vessels of three size classes with the arbitrary names Vilyuy, Aldan, and Vitim. These vessels hold an intermediate place in terms of principle of movement between wing-in-ground craft and conventional surface-effect ships.

Basic Data and Characteristics

	Vilyuy	Aldan	Vitim
Passenger capacity	80	50	30
Power plant output, kw	5,000	2,500	1,500
Speed, km/hr	300	270	240
Range, km	1,500	1,000	500

Studies showed that under Siberian river conditions, such vessels are capable of considerably increasing the length of regular passenger lines and enable shipping not only in the fall-spring period, but also in winter.

Sredne-Nevskiy Shipyard

The comfortable motor cruise yacht Lady Anna III was built at this state enterprise for a Swedish client. This single-deck seagoing vessel with steel hull and aluminum-magnesium alloy superstructure has a full displacement of 177 t and dimensions of 27/22.9 x 7 x 3.75 x 2.6 (draft) m. The hull is built for a class of the Russian Maritime Registry of Shipping. Two 272 kw diesels operate one variable-pitch propeller, providing a speed around 11 kts. A 20 kw diesel generator, bow thruster, and stabilizers also are provided. The yacht is designed for nine persons, including a crew of five. The operating area is unrestricted in seas with tropical and moderate climate, and cruising range is around 2,000 miles with total fuel capacity. The yacht costs $2.5 million, which is 1.5 times less than for building a similar vessel in Holland.

It is planned to organize the production of similar high-class yachts in St. Petersburg, basically for foreign clients. The French firm of D.S. Maritime is to assume the functions of seller, the Gibraltar firm of Ripple Invest is to be responsible for the financial side of the project, and the St. Petersburg firm of Akva-Media is to act as contractor. It is planned to build three to four yachts per year at a price of $2-2.2 million.

Vympel AO

The first meeting of stockholders of this Rybinsk shipyard (former Vympel SPO [Shipbuilding Production Association]), held in mid-1994, approved the final articles of association, elected a Board of Directors and an auditing commission, and appointed a general director, Ye.A. Gorin.

The plans of the Vympel AO include introducing a second phase of a covered slip and completing the renovation of a number of shops. The Rybinsk shipbuilders presently are mastering construction of a new version of a Molniya-Class ship, the patrol craft Mirazh, a Design Project 13309 small seagoing trawler, Design Project 16611 hydrographic vessel, and Design Project 14613 fire vessel. The decision was made to stop using ship furniture produced in Uzhgorod and organize its manufacture themselves.

Feodosiya More PO

In cooperation with the Russian Likoprommarket Company, Feodosiya shipbuilders are creating a fast car-passenger ferry with bottom air cavity, which, forming in the course of vessel movement, helps reduce water resistance. The new triple-deck vessel will be capable of carrying 350 passengers and 60 cars at a speed of 42 kts.

Kherson Shipyard

The Russian Gazprom AO will become owner of the drilling ship Arktikshelf, whose fate was uncertain for two years. The vessel was built at yard expense in the final stage inasmuch as the Murmansk Arktikmorneftegazrazvedka Enterprise ended up insolvent. In October 1993 she put to sea (for the third time) to test side thrusters. By September 1994 the vessel's readiness was 98 percent; it remained to test the technological complex (drilling equipment for working at depths to 300 m). Specialists of the German Cooper Oil Tool firm were to adjust the hoisting-wellhead complex and the Scottish Simrad Osprey firm was responsible for the underwater television device.

According to the agreement signed in March 1994, the vessel is being delivered to a considerable extent through Ukraine's payment of debts for Russian natural gas. The cost of the drilling ship Arktikshelf, which has a design displacement of 19,850 t, design deadweight of 7,640 t and design dimensions of 159 x 25.3 x 11.7 (draft) m, is set at approximately $65 million.

Meanwhile, a second drilling ship with the same dimensions, Nauka, is not destined to be completed: A final decision was made to part her for scrap.

Black Sea Shipyard

Kriti Amber (Crete Amber) is the name of the lead tanker/product carrier with a deadweight of 45,000 t in a series being built at the Black Sea Shipyard for the Greek Avia Company. She was launched on 4 June 1994. Initially intended for a Norwegian client, the vessel has double sides and bottom and meets international ecologic safety requirements. Length between perpendiculars 182.9 m, beam 32.2 m, depth 18.6 m, and draft 11.2 m. A Bryansk-made 6S60MC diesel with 10,400 kw output at 94 rpm is installed in the vessel. The cost of the first three vessels is $32 million each. Delivery of another six of the same tankers (two a year) capable of carrying up to eight grades of oil and oil products and occasionally also caustic soda is envisaged.

* * *

The best Black Sea Shipyard welders were chosen to work on an integrated team in the German Fr. Fassmer shipbuilding firm, which specializes in building rescue boats, various small craft, and small pilot and police boat types of vessels. Inasmuch as European requirements for quality and external appearance of welded constructions are rather high, the workers underwent a special certification confirming their qualification. The certifying commission, which gave theoretical and practical exams, also included representatives of the German Lloyds.

Okean Shipyard

A production modernization program is being carried out at the yard to increase competitiveness of the manufactured product. An electronic-mechanical welding robot of the Australian IGM firm has been introduced to improve quality in fabricating standardized bottom sections. It is supplied with two welding heads capable of functioning simultaneously, providing for welding in any attitudes. Earlier, new machines for plasma cutting of rolled stock under a water layer, automatic welders, high-capacity units for welding in an atmosphere of shielding gases, and so on began operating in yard shops.

In 1993 the Okean Yard concluded 169 contracts with 41 firms from 18 countries for supplying ship equipment, materials, small-scale mechanization equipment, tools, and instruments as well as spare parts, medical, surgical and stomatological equipment, and very scarce medicines.

Northern Machine-Building Enterprise PO

Recycling written off nuclear powered submarines also is among the production tasks being performed by Northern Machine-Building Enterprise PO. The technological parting process was developed on the first titanium-hulled submarine cut up for scrap last year. A solution to the main problem also was found: The cut-out reactor compartment is mated to specially made cone-shaped buoyancy tanks and then towed to a certain remote area for storage. Compartments also are used as solid radioactive waste containers. The submarine hull initially was cut into large sections, and then, in accordance with the specific contract, into parts required by the client (in terms of dimensions). The work of recycling the first submarine lasted around a year. Of the next two orders to be parted for scrap, one submarine was built by the Northern Machine-Building Enterprise at one time.

TsNIITS [Central Scientific Research Institute (SRI) of Shipbuilding Technology]

Meetings of chief process engineers of St. Petersburg enterprises to exchange experience at "Scientific-Technical Progress of Shipbuilding Production" seminars held at TsNIITS are becoming traditional. At one session devoted to ecological matters, Institute specialists told those assembled about developments in the area of purification of blower exhausts on lines for interoperational priming of rolled stock (Yu.V. Vasilevskiy), cutting various materials by a stream of superhigh pressure water (I.D. Starikov), and resource-conserving technologies for bending, straightening and corrugating sheets (O.S. Kuklin).

The interest of those assembled also was generated by the following reports: V.S. Mikhaylov—"Ecologically Clean Technologies of Vibration Treatment and Thermal Straightening of Ship Constructions With High Frequency Currents For Relieving Residual Welding Stresses and Deformations;" A.Ya. Rozinov—"Acoustic Method of Monitoring Tightness and Seal of Ship Hull Constructions;" I.A. Vinokurov—"Ecologically Clean, Waste-Free Process for Cleaning Pipes of Special-Purpose Ship Systems and Industrial Technology for Processing Toxic Wastes from Galvanic and Paint and Varnish Operations;" Yu.V. Khokholkov—"Supplementary Processing in Forming Hull Constructions of Polyester Glass-Reinforced Plastic;" B.D. Vinogradov—"Acoustic Ecology on Vessels and at Enterprises;" K.I. Maltsev—"Individual Protection Against Noise on Vessels and in Shipbuilding Production;" and others.

Murmansk Sevmorput Marine Yard

This is the new name of a ship repair yard founded in 1938 in the northern part of Murmansk on the shore of ice-free Kola Bay. Having drydocks and a large floating dock with a carrying capacity of 80,000 t, the yard specialized in the repair of various types of ships. In recent years civilian ships also have been repaired and river oil barges are being built. Two lead barges (a self-propelled and a non-self-propelled barge) have been turned over to a Dutch client for carrying chemical cargoes and fuel with a capacity of the eight cargo tanks of 2,900 m^3 and dimensions of 95 x 11.38 x 5.3 x 3.2 (draft) m and 85 x 11.38 x 5.3 x 3.2 (draft) m respectively. Both are single-deck vessels with double bottom (except for the forepeak and afterpeak) and 12 transverse and two longitudinal watertight bulkheads. The hulls are made of steel 8-16 and 22 mm thick and the framing consists of bulb plates Nos 16, 18, 20, and 22 and 120 x 80 x 10 mm angle. Bow and stern thrusters, a cargo heating system, eight ballast tanks (1,200 m^3) in the double bottom, and towing arrangements are provided on the barges. The after part of the self-propelled barge has a superstructure with wheelhouse and with crew spaces, and the engine room; the non-self-propelled barge is outfitted with a forward house and after wheelhouse on lift gear. The vessels were built in accordance with and under supervision of the Russian Register. After trials, the self-propelled barge was towed to Constanta (Romania), and the non-self-propelled barge to Rotterdam (the Netherlands), where they were examined by Veritas Bureau inspectors and turned over to the client.

Hermes Concern

From all appearances, the Russian Hermes Financial Concern with a number of subsidiaries (Hermes-Soyuz, Hermes-Planet, Hermes-Tsentr, Hermes-Neva, and others) also has included the shipbuilding sector in its sphere of interests in addition to the oil and gas industry. By the fall of 1994 it had acquired major and even controlling blocks of shares in such enterprises as Tyumen Shipyard (40 percent), Volgograd Shipyard (19 percent), Yaroslavl Shipyard (12 percent), Slip Shipyard (30 percent), Svir Shipyard (controlling block), Redan AO, and also the St. Petersburg Zvezda Diesel Building Plant (controlling block). Although shipbuilding is among the low-profitability sectors, in the opinion of Hermes consultants the demand for vessels will increase considerably in many countries in the next few years and a substantial increase in the volume of orders can be expected.

The concern is one of the founders of the Skorostnoy flot open joint-stock company financial-industrial group, which is to combine the efforts of central design bureaus, shipyards, plants supplying ship equipment, and service and shipping companies for the creation and effective operation of modern, fast passenger vessels. The group includes the Central SRI imeni Academician A.N. Krylov; Prometey, Redan, Zvezda, and Almaz Central SRI of KM [not further expanded]; Svir Shipyard; Sredne-Nevskiy Shipyard; Central Design Bureau for SPK; Volga; and so on.

Northern Shipyard AO

A general-purpose maritime transshipment complex is being created at enterprise conversion areas with a duty-free area formed on its basis. The project is being realized from its own and borrowed funds of the Northern Shipyard open joint-stock company and Western Company closed joint-stock company. Administrative-economic management functions on territory of the customs area will be carried out by the Western Company closed joint-stock company.

Delf Shipbuilding Firm

This firm was established in Yaroslavl to build large motor-sailing yachts suitable for long-distance sport and tourist cruises both on inland waterways and at sea. Its director is Yuriy Nosov, Master of Sailing Sport and former Yaroslavl Shipyard engineer. At the end of 1994 the firm already had orders to build two steel-hulled yachts. These are two-masted 25-meter vessels with a displacement of 56 t with seven double-berth cabins. An auxiliary 106 kw diesel is provided in addition to rigging with an overall area of 285 m^2. The yachts will cost the clients $300,000, which is three to four times less expensive than foreign analogues.

The section used articles from the newspapers KORABEL, SUDOSTROITEL, ADMIRALTEYETS, KRASNYY SORMOVICH, KOMMUNAROVETS, OKEAN, NA TRUDOVOY VAKHTE, DELOVOY PETERBURG, and others, as well as advertising prospectuses and information materials provided to the editors by enterprises and organizations.

Footnotes

1. For a detailed description of the vessel's design project, see SUDOSTROYENIYE, Nos 2-3, 1993, pp 3-7.

*'Stabilization' of Oil, Oil Product Prices Explained

954F2695B Moscow SEGODNYA in Russian
28 Jun 95 p 4

[Article by Anastasiya Naryshkina: "Stabilization of Prices on Oil Has Taken on a Menacing Character: Commodity Credit Has 'Undercut' Oil Processing"]

[FBIS Translated Text] Prices on oil and the products of its processing were relatively stable in June. According to the data of the RF [Russian Federation] Government Center for Economic Market Conditions, for the first half of June oil prices increased by 6.6 percent, and prices on petroleum products, specifically gasoline—by 3 percent.

However, while we may speak of some stabilization, it is only stabilization in the worst sense of the word. The petroleum processing plants, which traditionally consume around 70 percent of the oil, are experiencing a serious shortage of money. Solvent demand on oil is practically absent today. As a result, oil producers have been forced to sell their goods literally at production cost. Moreover, some are ready to reduce the level even below the production cost. They are kept from doing so only by the severity of the tax service, which punishes such actions with fines.

The poverty of the Russian NPZ [petroleum processing plants] is caused by several circumstances, the oldest and most customary of which is the crisis of nonpayments. Aside from it, the commodity credit, which is despised by processors, has also played a significant role. Despite the fact that in April and May (results for June have not yet been tallied), the volumes of oil processing increased, the NPZ did not become any richer, since a significant part of their products were in fact shipped to agriculture free of charge. As it appears, the oil processors will be able to get their money from the peasants only with great difficulty. In any case, they are trying to get out of giving such fraternal aid to their fellow countrymen agrarians in every way imaginable. Some have indeed managed to escape from this charitable step. Some, who absolutely could not afford it, simply, in the expression of one specialist, "did not get" the fuel to the fields under their patronage.

Finally, the slow turnover of finances in the sphere of oil processing reduces the attractiveness of credits for the NPZ. As a result, the plants do not have sufficient working capital at their disposal, and oil producers try to avoid selling them raw material if they possibly can.

All these sad circumstances have become the reason for the relative price "stabilization." The oil producers do not raise or almost do not raise the prices on raw materials, and the processors of this raw material conduct themselves accordingly. Then again, the figures cited above (6.6 percent and 3 percent) appear to specialists to be rather conditional. More precisely, they appear to be very averaged. Some hold prices at one level or another, while some are undertaking a rather significant increase (for example, in the Northern Caucasus oil has increased in price by 28 percent).

Today oil, taking into consideration the excise tax and the VAT [value-added tax] is sold to processors by producers at an average of 300,000-340,000 rubles [R] per tonne. Prices of R290,000 or R352,000 per tonne are a rarity. The disparity of prices on A-76 nonethyl gasoline is rather significant: The Omsk NPZ, for example, is asking R808,000 per tonne, the Saratov NPZ—R1,571,200 per tonne. The average level of prices on this product is somewhere between R1,130,000 and R12,000 per tonne. Moreover, the MNPZ [Moscow Petroleum Processing Plant], unfortunately, occupies one of the leading places—R1,263,600 per tonne. Ethyl A-76 costs consumers R989,600-1,408,800 per tonne, and nonethyl A-92—R1,147,600-1,648,100 per tonne. At the MNPZ it costs R1,501,600 tonne.

According to expert predictions, the current situation will continue until the fall. Specialists note its similarity with last year's situation, when literally the entire summer, prices on oil and petroleum products, to the misfortune of the producers and processors, remained at a standstill. The experts, and specifically analysts at the Kortes agency, expect the most undesirable development of events—a decline in production and subsequent shortage of products, and as a result—a significant increase in prices. This is what the producers are also waiting for.

National Affairs

*Holovatyy on Genesis of Constitutional Agreement

954F2707A Kiev GOLOS UKRAINY in Russian 28 Jun 95 p 2

[Interview with Sergey Holovatyy, Ukrainian People's Deputy and President of the Ukrainian Legal Foundation, by GOLOS UKRAINY special correspondent Anatoliy Ben: "The Constitution Is Out of Step With Everyday Life. This Is the Reason the Constitutional Agreement Was Necessary"; date and place not given]

[FBIS Translated Text] **Excuse the elevated style, but a recent event — the signing of the Constitutional Agreement by the Supreme Council and the President of the Ukraine, no matter how it is regarded, is really an event of historical significance. Time will pass and not a single political science or law student will attempt to build a scientific career on this theme. This is why, figuratively speaking, even before the fanfare from the festive signing of this act in the Mariynskiy Palace had had time to die down, various rumors, sometimes contradictory, about the authorship of this agreement and its subsequent fate and role in our complicated times had already begun to fly. After all, it has long been said that success has many fathers, but failure is always an orphan.**

Our special correspondent asked Sergey Holovatyy, Ukrainian People's Deputy and President of the Ukrainian Legal Foundation, to clarify the situation.

[Ben] Mr. Holovatyy, I am turning to you because your name, as well as that of the former Chairman of Ukraine's Constitutional Court, the renowned Professor Leonid Yuzkov, is mentioned most often as one of the "fathers" of this document, which is unique not only in our country, but also in worldwide practice — the Constitutional Agreement. Of course, it is not a matter of the original authorship, inasmuch as this is not that important now for our exhausted people, but, all the same, in order to be precise here....

In this situation, proceeding on the basis of specific ethical considerations, it will be appropriate to refer precisely to the words of Leonid Yuzkov himself, spoken by him last year at the meeting of the "round table" organized by the UPF [Ukrainian Legal Foundation]. Leonid Petrovich stated at that time (I am quoting from the stenographic record): "At the meeting of the Constitutional Commission, the interesting, in my opinion, idea of a Constitutional Agreement was expressed. The foundation of this idea was laid by Ukrainian People's Deputy Sergey Holovatyy." Is this how it was in point of fact?

[Holovatyy] I will not dissemble: this idea arose in my mind when the draft of the "impenetrable" Constitutional Law on Authority emerged in the Supreme Council. I first shared the idea with Leonid Petrovich back in November of last year. He supported it, saying: "the first meeting of the new membership of the Constitutional Commission will take place soon. Propose such a course at it and I will support it." For which, I will be eternally grateful to Leonid Petrovich.

It is true, not being certain with respect to the commission itself, I decided to get some help and resorted to the services of the press —KIYEVSKIYE VEDOMOSTI, which also published my idea.

[Ben] When your idea was published, its opponents immediately demanded a response to the question: just what is this thing — a Constitutional Agreement — a form, a process or a source of political and legal compromise between the branches of authority?

[Holovatyy] Back then, Leonid Yuzkov responded that the Constitutional Agreement is simultaneously a form and a process and a source. And, as events have shown, in due course, the Constitutional Agreement became part of the latest constitutional process in Ukraine. The process of concluding the agreement in fact started in such a way that few people even took note of it. I.e., as of the moment when the first conciliation commission headed by Supreme Council Presidium member Professor Vladimir Butkevich was established. This was a legal precedent, inasmuch as, prior to this, we had never established a conciliation structure between two branches of authority for even a single draft law. However, this commission was doomed by the fact that it had essentially been established unofficially: not by the Supreme Council, but rather, by the Constitutional Commission, which the latter did not have any right to do. Finally, the Supreme Council did not accept its proposals and we all found ourselves at a dead end. Then, right in the meeting hall, I put together and submitted to the chairman of the Supreme Council my draft of a decree, in which I proposed supporting the proposal of the President of Ukraine on the establishment of a new conciliation commission on basically new principles: it should include from the Supreme Council one representative from each of the factions and groups. The draft was immediately put to a vote and adopted. Only later did the leftist majority in the parliament understand how they had been bypassed, i.e., generally, they have a voting majority, but not in the conciliation commission. Might this not well be the reason this commission was able to find a way out of the situation and, as a result, managed to sign the agreement?

So we signed it as an integral document. Thus, the Constitutional Agreement is a form. And, finally, the fact that, with respect to where the constitution agrees with the agreement, the constitution is in effect, and where it does not, the agreement's norms are in effect, gives us grounds for talking about the Constitutional Agreement as a source of constitutional law.

[Ben] Some political forces have been maintaining that the constitution currently in force should be left alone and others have been insisting that only the Law on Authority be adopted, while yet others have been proposing the adoption of a Minor Constitution. However, you and, in addition to you, those who signed the agreement saw a way out precisely in such a political and legal compromise. Will you explain what its advantages are?

[Holovatyy] It was already evident that we would not adopt a new constitution and the Law on Authority was also not adopted by a constitutional majority: the irreconcilability of the positions of Kuchma and Moroz had increased.

It is no longer possible for us to live with the 1978 Constitution, because it is out of step with our everyday lives. If we were to pass just the Law on Authority, then a two-sided situation would arise. Some political forces — those of a communistic-socialistic bent, would "worship" the 1978 Constitution, while others would follow the Law on Authority. And both would formally be right, after all, both the mentioned constitution and the Law on Authority were adopted by us as legal acts of an independent Ukraine by a simple majority vote and not by a constitutional majority vote. And solving this contradiction in the absence of a Constitutional Court is impossible.

But now the Constitutional Agreement does not cancel out either the constitution or the Law on Authority. On the contrary, it reconciles them to a certain extent. I would remind you that the first part of the agreement was made up of the Law on Authority in fact, while its second part stipulates that, until the adoption of a new constitution, the provisions of the Basic Law currently in force are to remain in force only in those instances when they agree with this agreement.

The agreement's fourth section stipulates one more extraordinarily unique situation — the parties which have signed this document have voluntarily deprived themselves of specific rights, i.e., each of them has relinquished the constitutional right to announce referendums or even public opinion surveys.

The Law on Authority has been implemented in Ukraine's existing constitutional realm, which has been stated clearly in the agreement itself. I.e., taken together, those norms of the constitution in force, which do not contradict the agreement, and the agreement itself plus the Law on Authority can already be called Ukraine's Minor Constitution.

And to continue about other items. Thus, it was proposed, for example, that the agreement on social harmony be signed, about which a lot of pressure was placed on our president. This document stipulates a moratorium on strikes and mass meetings, support by the legislative authority for the executive authority and so on. Such a document was signed in Russia at one time. However, under Ukraine's conditions, political parties are not subjects of state authority, we have not yet had elections on a multi-party basis and parties in our country do not have their "own" parliament or government. However, if such an agreement were signed by party leaders Simonenko, Moroz, Chornovil, Horyn, Yavorivskiy, and others, then this would not have any legal consequences for our state. This is why I did not support President L. Kuchma in this matter and did not support at one time the Russian citizens, inasmuch as, from the legal standpoint, such agreements are, you will forgive me, so much hot air. What we needed was an agreement not between political parties, but rather, between the branches of state authority. Only given these conditions would it, based on its own legal nature, become a document with specific legal consequences for the state and for its citizens.

[Ben] The communists and their confederates in the Supreme Council are continuing to insist that the signing of the Constitutional Agreement is an anti-state and anti-constitution revolution....

[Holovatyy] This is why I want to remind you that the 1978 Ukrainian SSR Constitution, under which we are living at the present time and which the leftists are defending so much, had not been given legitimacy as an integral legal act of an independent Ukraine. In fact, there was no transition from the Constitution of the Ukrainian SSR to a Constitution of Ukraine as an independent state. The Law on Ukraine's Lawful Succession, on the basis of which the Ukrainian SSR Constitution has been functioning in Ukraine up till now, was adopted in September of 1991 by a simple majority vote. In like fashion, we also produced the Ukrainian SSR Constitution by a simple majority vote and not a constitutional majority vote. The same goes for the Constitutional Agreement. So just which anti-constitution revolution is being discussed?

Yes, the currently functioning 1978 constitution made no provision for such a path. But it also did not prohibit it. And we should proceed on this basis. And also on the fact that the subjects of constitutional law — the highest and sole ones, which are the people's deputies and the President of Ukraine, who have been elected directly by the people and thereby endowed by them with authoritative powers — are concluding an agreement on the temporary nature of the mutual relations between themselves. I even proposed that this be stated in the agreement and I stand by this position. Tell me, really, do they not, in the interests of the people, have the right to agree on the specific nature of the mutual relations between themselves for a specific period of time?

In the currently functioning 1978 constitution, there is the second article which points out that the people exercise state authority through the councils of people's deputies, which represent the political foundation of Ukraine. All other state organs are accountable to these councils. It follows from this norm that, except for the councils, we cannot have other organs of authority, including the president and the government, and not even a judicial authority as an independent branch. However, the communists, in this instance, are interested in preserving the former command system — they do not need either a president or local organs of self-goverment. But the Law on Authority makes provision precisely for the possibility of the people exercising their authority also through a system of state organs and local self-government organs and definitely on the basis of the division of authority into legislative, executive and judicial branches, i.e., that without which a legal state cannot exist and that which is required by the realities of our life.

[Ben] Forgive me, Mr. Holovatyy, but, by the way, one more counter-argument should be cited. At first, your idea stipulated the signing of the Constitutional Agreement between the three branches of authority, but two signed it — the legislative and the executive branches. Where did the judicial authority disappear to? Or is it really so, you will forgive me, impotent that it is possible to disregard it?

[Holovatyy] Yes, I proposed an agreement of all the parties which are subjects of constitutional and legal relations and, thus, the drawing up of a mutually acceptable political and legal mechanism for the implementation of the entire set of reforms: political, state and legal and economic. For, if we do not proceed in this manner, then we risk running into the Russian version, where the legislative authority was kept from such participation. Yet, all the same, we decided on the participation in the process of only two branches of authority. And there were weighty reasons for this. First, a judicial authority as such had not yet been formed in our country, a Constitutional Court is lacking and the concept of judicial legal reform is just being worked out. And second, let us consider whether or not it would be worthwhile, under Ukraine's conditions, to draw the judicial authority into the dispute which had arisen between the two branches of authority. Is it necessary to politicize it artificially in this dispute?

[Ben] And in conclusion, Mr. Holovatyy, with respect to this document's title. Officially, it is the Constitutional Agreement, however, certain politicians and legislators and, in addition to them, individual representatives of the mass media as well are continuing to call it an understanding....

[Holovatyy] Individual so-called true Ukrainians are contending that, in this instance, the word "ugoda" (understanding [soglasheniye]) is purely Ukrainian. But, after all, the discussion here is not about a word, but rather, about a legal term. In the generally accepted system of bilateral and multilateral standard legal acts, agreement is the generic concept. And agreements include the terms understanding, declaration, protocol, memorandum and so on. Therefore, the term "agreement" is more encompassing and legally more authoritative. This uncommon document deserves precisely such a title.

But we will see what kind of name the people bestow on this unique situation which has been caused by the adoption of the agreement. I would like to believe that both parties will take advantage of it to adopt a new Ukrainian Constitution and, thus, we will finally manage to establish a constitutional basis for our state system for all time.

*Socialist Party Papers Over Divisions

954F2666A Kiev PRAVDA UKRAINY in Russian 22 Jun 95 p 2

[Article by Vadim Fomenko: "Putting a Brave Face On It?"]

[FBIS Translated Text] No sooner had A. Bozhko, first secretary of the Socialist Party's Kiev City Committee, mounted the platform before there were peals of thunder. No, not of applause. Real, rolling, deafening thunder. The storm, which had been building up for some time, finally broke. And all the delegates of the review conference of the city committee somehow cheered up and broke into smiles. You have to be happy when there is a relaxation of the atmosphere!

But as distinct from the weather, alas, the political atmosphere in the hall got hotter as things progressed. The script of the conference altogether developed like the plot of a good detective novel: Nothing could be guessed—who was the villain, who was the injured party—right until the very end. And at the conclusion also the secret remained under lock and key. The draft decision, which had been prepared in good time, was approved only in the main. As in parliament, it was decided to adopt this document "at its second reading," at a city committee plenum. But no outsiders can learn what the content of this document will be. The conference decided to accompany all its decisions with a "classified" stamp.

It is this that is surprising! Other parties, on the contrary, strive for the maximum glasnost and try to propagandize their ideas in every possible way, here lips are sealed. What is the reason? Why is this? After all, the left has maintained so many times that washing one's dirty linen in public makes it cleaner. So why now the other way about?

In order to understand we need to familiarize ourselves with the news bulletin, which was distributed to the newspapers by the leaders of the city committee. It says that discussion of the situation in the party took place in a lively and serious debate, that the constitutional agreement was perceived as an anticonstitutional coup, that sharp criticism of the party leadership was heard, and that proposals concerning an improvement in the work of the party and its capital organization were submitted. But the conclusion sounded unceremonious and the direct opposite: "No split, which certain news media were predicting, occurred. Furthermore, the conference proposed the creation in the capital and in Ukraine of an association of forces of the left for joint work in the people's interests."

Yes, the conferees aspired to create the appearance of unity at all costs.

"On the eve of the conference," A. Bozhko observed in his report, "a journalist called me and asked me plainly: 'Do you intend to carry out a coup in the party?' 'No,' I replied, 'one constitutional coup is enough for us.'"

Nonetheless, if not a coup, there was a "flap": The majority of the speakers turned their backs on the party leadership sitting in parliament. There was criticism not only of Oleksandr Moroz but also of Chizh, Kiyashko, and Vinskiy, secretaries of the Socialist Party of Ukraine. The very principle affirmed at the fifth congress, when the party leaders were elected only from the ranks of people's deputies, was deemed inappropriate.

Fire on the faction of socialists in parliament was opened by Bozhko, but prior to this, substituting emotions for logic, he had really had a go at President Kuchma. The speaker painted in bright colors a truly frightening picture of Ukraine's immediate future.

"The most arduous ordeals await the people. The economy will in the very near future cave in conclusively. The former giants of industry will go bankrupt and will come under the hammer. The unchecked sale of the national wealth—land—will begin. Mortality will rise, and science, education, and culture will go into decline. As a result international capital will with the support of the local bourgeoisie accomplish in full its plans to convert Ukraine into its own raw material base with cheap manpower."

The blame for all this, the speaker maintains, lies, in particular, with the Socialist Party also, which has been unable to organize itself properly and establish interaction with other forces of the left in order to counterpose its policy to the antipopular forces. Sitting in parliament, the members of the socialist faction have essentially become supra-party and have begun to recarve its policy formulated six months ago at the fifth congress.

Sharp criticism of the left, which, sitting in the Supreme Council, has failed to make use of its opportunities for ascertaining leaders and publishing its own and supporting existing newspapers and has failed to help the leaders of the councils of a left persuasion, was heard not only from the conference platform but from the newspaper TOVARISHCH also.

The left has relied inadequately thus far on the entrepreneurs and business managers—not all of them are thieves and mafiosi. The left has yet to declare precisely for whom in business and by which laws it will stand up for the businessman working for the good of Ukraine and with which entrepreneurs it will break off relations conclusively [sentenced as published]. Why for the left are all wealthy people painted the same color?

Yes, inflexibility of policy frequently leads to conservatism and the mildewing of dogma.

V. Stepanov, first secretary of the Socialist Party's Pecherskiy District Committee, spoke with alarm about the fact that many people are losing faith in the Socialist Party.

"There are 120 party members registered in our district—almost one-fourth of the entire capital organization, but we have stopped growing: Only two persons were admitted to the party in the six months."

"Who at future elections will go to vote for the socialists?" N. Yurchak, representative of the Zaliznichnyy District Committee, said painfully. "After all, trust needs to be bolstered by deeds, and if they are absent, no propaganda will help, especially if it is conducted very feebly."

No, the city committee has not been inactive. In the six months in review it adopted approximately 50 statements and appeals and organized various actions—the picketing of the Committee for Television and Radio Broadcasting, demonstrations, public meetings, and so forth. But the majority of these were, unfortunately, "envelopment" measures: The district committee secretaries busied themselves inadequately with their own district organizations. Only Second Secretary V. Arestov really showed what he could do, whereas A. Bozhko himself, in the opinion of the speakers, has been displaying more concern for the growth of his own authority.

It was said at the conference that merely a temporary armistice had been achieved in the war of the palaces and the shacks (read: the president and the socialists). A struggle for a real constitution, proposals for which may be presented by the president and the Supreme Council together, lies ahead. So we will yet see who's who.

In the opinion of Ivan Chizh, leader of the socialist faction in parliament, the Constitutional Agreement by no means signifies a loss. "Our level-headed actions in the situation surrounding the Law on Power, our composed response to its result, our attentive observation of the future actions of the authorities and an adequate response to them—this is the basis of today's tactics of the Socialist Party of Ukraine."

But decisions, as we have already said, were not adopted. Merely the demand for the resignation en masse of the party's executive body—the Political Executive Committee—and the election of a new one at the next session of the Political Council was heard (and this is called unity!). Simultaneously the conference proposed a widening of the opposition field of the Socialist Party of Ukraine: opposition not only to the president but to parliament also.

Economic Issues

*Crimea Budget Allocations Explained

954F2709A Simferopol KRYMSKAYA GAZETA in Russian 4 Jul 95 p 1

[Interview with V. N. Moskovina, chief of the Securities, Precious Metals, and Monetary Circulation Administration of the Ministry of Finance of Crimea, by S. Genin; place and date not given: "It Would Not Hurt To Check How Credit Is Utilized"]

[FBIS Translated Text]

[Genin] An article entitled "The Village Requests. Because It Lacks Bargaining Experience," was recently published in our newspaper. It is no wonder the peasants do not know how to trade. As they say, everyone must carry his own load. Village residents should know how to grow the grain while its sale must be entrusted to specialists, those who are knowledgeable. So far, however, we have what we have—a group of agricultural problems, which unfortunately, tends to keep growing. So, will Crimea have grain? That is the question. Let us try having it answered by someone who is directly involved with this problem. The floor belongs to Valentina Nikolayevna Moskovina, chief of the Securities, Precious Metals, and Monetary Circulation Administration of the Ministry of Finance of Crimea.

[Moskovina] Your question is quite apropos. At one of the planning sessions Vilord Fridrikhovich Apananskyy, the minister of finance of Crimea, stressed the importance of this problem and asked that it receive special attention. On my desk are documents which indicate that work is under way. There is, for instance, a letter from the minister of finance to L. Kazak, general director of the Krymzernoprodukt Production Association. He reports that in order to supply the republic of Crimea with flour prior to the appearance of grain from the 1995 harvest, it is necessary to purchase the absent amount of wheat in other oblasts of Ukraine in the amount of 12,500 tonnes, the cost of which, considering the markup, comes to 182 billion karbovantsy. A partial payment has already been made. For the final settlement of this account for the wheat, the AK Bank of Ukraine is issuing the Krumzernoproduct Production Association credits in the amount of 50 billion karbovantsy at 100 percent annual interest on the condition that the Ministry of Finance of Crimea guarantee repayment. On 7 June of this year Finance Minister V. Apananskyy and L. Kazak, the general director of the Production Association of the Elevator and Grain Processing Industry, signed a document which guarantees repayment of credits issued for purchase of bread grain outside of the republic covering a period of five months. In this manner the ministry is sharing responsibility for this guarantee with the borrower.

[Genin] Valentina Nikolayevna, what can be said about the amount of budgetary funds received by the agroindustrial complex both last and this year?

[Moskovina] I shall start with budget loans for financing of the state agricultural products contract for purchase of grain last year. A total of 1,410.5 billion karbovantsy was appropriated for those purposes, including 880.8 billion through finance organs. Credit on favorable terms in the amount of 16.5 billion karbovantsy was allocated last year out of the republic budget of Crimea. This year 279 billion was appropriated. It should be noted that 35 farms which received credit have not paid 0.5 percent in contract handling charges, which comes to a sum of 66 million karbovantsy. Altogether the balance of indebtedness for budget loans came to 774.4 billion karbovantsy at the start of May of this year.

[Genin] Let us decipher exactly what the financing is used for.

[Moskovina] In 1995 200 billion karbovantsy was appropriated out of the state budget of Ukraine to compensate agricultural producers for expenses on construction of facilities in the social sphere in the countryside. Another 200 were used to assist agricultural enterprises which suffered as a result of the drought.

[Genin] That came out of the state budget of Ukraine. What about the republic budget?

[Moskovina] From December of last year to March of this year 103 billion karbovantsy in credits were allocated out of the republic budget for 63 agricultural enterprises for the purchase of feed and fuel on the basis of a letter from the Ministry of Agricultural Production of Crimea. Some 127 kolkhozes and sovkhozes received loans for the grain harvest this year in an amount of 130 billion karbovantsy. Loans were also appropriated on the basis of individual letters with endorsement by the prime minister, the vice premiers, and the minister of agriculture and food.

[Genin] Exactly who, beside the Crimea Production Association of the Elevator and Grain Processing Industry, which got 50 billion karbovantsy for purchase of bread grain outside of Crimea, received the credits?

[Moskovina] The Universal Trading Center of Krympotrebsoyuz [Crimean Union of Consumer Cooperatives] received 3 billion karbovantsy for the purchase of margarine and goods for the rural population; the Plodovoe Plant-Sovkhoz in Bakhchisaray Rayon got 2 billion for technological expenses; the same amount was given to the Dionis leased enterprise for purchase of wine-making materials. In addition to that 8 billion karbovantsy were allocated for the purchase of margarine to Krymmyasomoltorg; the Saky Sovkhoz got 5 billion for the production of cereals; Krympotrebsoyuz received 2 billion karbovantsy for purchase of potatoes. To this it is necessary to add 100 billion karbovantsy for conducting spring field operations granted to agricultural enterprises of Crimea which were allocated by the employment fund on the basis of a republic government decree.

Last year 197.4 billion karbovantsy were appropriated for payment of markups for milk delivered by agricultural producers to government resources, 8 billion for reimbursement of expenditures of agricultural enterprises connected with the transportation of students to schools, and 41.1 billion karbovantsy for the financing of establishments and measures of the agro-industrial complex.

[Genin] Do the funds reach those for whom they are intended and how are they being spent?

[Moskovina] The effectiveness with which budget funds are spent is undoubtedly being checked. As of 1 June of this year kolkhozes, sovkhozes, and farms which concluded contracts received 770 billion karbovantsy. Out of that sum 609.5 billion karbovantsy were spent on fuel and lubricants. It should be said that a particularly low supply of gasoline and other commodities and stocks is noted in Simferopol, Krasnoperekop, and Belogorsk rayons.

[Genin] Does it happen that gasoline, for instance, reaches not those with whom a state contract was concluded for the sale of grain to the government?

[Moskovina] Unfortunately cases like that do occur. At the Razdolnensk Rayon Agricultural Supply Organization, for instance, cases were discovered of gasoline purchased with budget funds being issued to the 21st Congress Kolkhoz which had not concluded any contracts. At the same time 11 farms in that rayon, which had a contract, failed to receive 5.2542 billion karbovantsy worth of gasoline.

[Genin] Consequently apprehensions that funds would end up not where they were intended are not groundless?

[Moskovina] Forms of control over effectiveness with which budget funds are used make it possible to correct the money flow in the required direction. The only thing that may be mentioned is the position of the minister of finance that control must be stricter, more rigid, and concrete in every case.

[Genin] Are there cases when the loan appropriated out of the budget is not used at all?

[Moskovina] There are cases like that as well. As of 6 January of this year six farms have not used appropriated funds totaling 1,952.4 million karbovantsy.

[Genin] What is being undertaken by the ministry in such cases? Are there any sanctions in the mechanism of control over repayment of credits?

[Moskovina] I shall cite an example. During a check of the utilization of budget funds for their specified purpose, the Sakskiy Rayon financial department discovered an unused balance of the previously allotted credit for the acquisition of fuel and feed as of 6 January of this year in the special account of the Gorkiy Kolkhoz. Some 769.4 million karbovantsy out of 2 billion remained unused. On the order of Finance Minister V. Apananskyy, the money was declared due and payable ahead of time. The unused balance of the credit, however, was in the bank between 8 December and 25 January, earning it income in the amount of 260.3 million karbovantsy. It is quite natural that the request of the kolkhoz to void the order of the minister was refused and was motivated by the fact that credit has not been used for the designated purpose.

[Genin] Valentina Nikolayevna, here is the final question. Why is it necessary for the Ministry of Finance to engage in the crediting of agriculture at all? After all, gasoline, for instance, can be purchased by a clever enterprise without a government contract for purchase of grain.

[Moskovina] This is the whole point: it is for purchasing grain. Without a contract there will be no delivery of grain to the government. Crimea cannot be left without grain. Therefore this rather difficult work is being carried out by the Ministry of Finance which is justified.

[Genin] Thank you very much for detailed information on the work of the Ministry of Finance, which is important for Crimea and which few have known about until now. We wish you success.

*Manganese Industry Problems Viewed

954K0631A Kiev MOLOD UKRAYINY in Ukrainian 23 Jun 95 pp 1-2

[Interview with Viktor Kostanetskyy, Nikopol Ferroalloys Plant deputy director for economics and foreign economic relations, by MOLOD UKRAYINY staff correspondent Tetyana Khomych, in Nikopol, Dnipropetrovsk Oblast; date not given; under the rubric "Priorities": "'We Want To Earn Hard Currency for Our Own Nation, Not for Russia's Gazprom'"]

[FBIS Translated Text] The heart unexpectedly begins to ache upon close familiarization with the Nikopol Ferroalloys Plant—making that grim crossing of the line between metallurgy and the defense industry. To encounter such an enterprise, among all the talk of crisis and the decline in social guarantees, is like returning to some island left long ago, whose indigenous inhabitants did not let their environment be destroyed by the wildest storms. Order and steady pay. A solid social sphere, for example, a monthly pass to the local rest camp or dinner in the cafeteria costs the workers hardly anything. The exquisite European sheen of the plant's culture and sports complex dazzles the mind. The enterprise spends a billion karbovantsi on maintaining it alone.

But it is no inner need to admire these remnants of prosperity that draws your attention to the ferroalloys plant today. The Russian firm Gazprom, as it was recently announced, has sent the Ukrainians a list of the enterprises in which they are interested in a controlling block of shares—naturally, in the context of the Ukrainian debts for gas. The tireless outpouring of information is opening up a new page in our everyday life—the holy of holies of any country, its fixed capital, its mineral resources, are becoming the object of trading because of the financial insolvency of the state, caused to a significant extent by anarchy in the state industrial sector and various types of currency machinations. We hastened to ascertain the reality of this threat to Nikopol—a plant that has also landed on the aforementioned list.

[Kostanetskyy] The exact author is unknown, but that our plant was also planned to be "torpedoed," it looks like such a threat exists. The situation began to change especially sharply as of 1 May, when the price for electric power went up drastically. That includes us as well, "wholesale" consumers of the products from the nuclear personnel of Energodar, who are just a few kilometers away. The last price hike hit our plant especially hard, since electric power is approximately 40 percent of the necessary components for the production of ferroalloys. The more so as the cost of all of the other components—manganese ore, coke, etc.—has also gone up accordingly with that of the power raw material, which went up 1.6 times. The cost of our product thus also went up by one and a half times. We are threatened with the shutdown of the enterprise."

[Khomych] But you do not look at all like a sinking ship from the outside.

[Kostanetskyy] What we achieved in the social sphere before does not help us overcome production difficulties today. On the contrary, we suddenly felt that this sphere had become an unbearable burden for us. We will be forced to cut off the oxygen for all of our social programs, and shut down almost all of the furnaces; most of them are open today because of the electricity. Our product, which was already at world levels, has now crossed that threshold with the new prices. We are risking being left without customers, who will find some other, cheaper product....

[Khomych] But your products are special; we have always written that Ukraine has the richest reserves of manganese ore and, thus, God himself has bidden that we be the world monopolists in the production of the manganese alloys necessary to steel production. We will meanwhile, with considerable difficulty, penetrate the "iron market" of Europe with cast iron and other metal semimanufactures of secondary importance.

[Kostanetskyy] No one could diminish our role in that market up until quite recently. We produced 1,200,000 of the 4 million tonnes of world ferroalloys production. The entire Union once counted on such production volumes from our enterprise. Ukraine naturally does not need that much. The domestic market can "consume" no more than 20 percent of what we are able to produce.

The other 80 percent of our products are thus oriented toward export. We earn an average of close to $230 million a year for our state, which we receive for our products and sell to the National Bank.

[Khomych] Many producers today are complaining that they cannot earn dollars, since the Western market is overallocated, and we are literally left whipsawed: Russia displacing us, oriented toward a self-sufficient economy, and the West is not taking anything. Does a demand exist for our products at all? Is there a world shortage of ferroalloys, is it technical sophistication or, on the contrary, dumping prices that count?

[Kostanetskyy] Our heads would not hurt as much if the market for ferroalloys were not so tight. The Japanese equipment—four out of the 16 furnaces at the plant—cannot create business, although we have nothing bad to say about them. Ours are just more all-purpose, more tolerant of various admixtures—the Japanese hardware is designed for ideal conditions for the most part. The issue is something else—how well-thought out the strategy for our activity in the foreign market is.

But the processes of dumping, which are practiced against us and some other countries by the nations of the EC and the United States, have also not left us untouched. These things have been underway for two years, but no decision has as yet been approved. These processes also cannot be perceived unequivocally: It is not a matter of the fact that we are trading at diminished prices, the market in the West really is already entirely overallocated, and sometimes you need to have someone leave it and someone remain. I am not disclosing any secrets that some would like to push Ukraine out the door as a young participant in these trades. We have had many commissions over these years, and have become convinced that we will not pursue an intentional dumping trade aimed against some third party. We have found support, at the same time, from the union of steel smelters of the EC countries—they have a vested interest in having us remain in that market. As soon as we leave it, the price for steel will go up sharply.

[Khomych] But when our enterprises in the metallurgical sector, so as to at least be selling "something," are trading in metals in the foreign market at diminished prices, the interests of the state itself suffer.

[Kostanetskyy] "Diminished" means you can sell something for the same price you buy it for, in general. Recently, for example, we had this conflict arise: Transport shipping went up in price in Russia, and our products became noncompetitive in the Far Eastern market taking those expenditures into account. We naturally had to find ways of making our product cost less, and we decided to transport it by sea. That is the kind of "adjustments" we have to resort to. So we are selling our goods to Russia and to other countries at the optimal world prices of $300-400. The cost of a tonne of product alone jumped to $418 as of 1 May, after electricity prices went up. Trading in this product will thus bring losses. We were thus forced to appeal to the president by letter, that he turn the attention of the leaders of the nation to the fact that nonferrous metallurgy will not be able to withstand this pressure.

[Khomych] That kind of acute situation has taken shape at more than your enterprise alone.

[Kostanetskyy] Unfortunately. It perhaps even hit us a little bit later—starting in the second half of last year. Only half of the furnaces in the shops are operating today, and yesterday we were forced to halt the ones that are operating for export. We are continuing to produce product only for prepaid contracts, or if the breach of contracts would lead to appreciable fines. We have not yet broken a single contract, and we have our steady customers; the market values reliability highly. We are thinking now about what will happen when those customers lose sight of us? Our niche in the foreign market will be taken by others, and Ukrainian ferroalloys will not get it back quickly a second time. We won the "eastern niche" with great effort at one time; when it was announced that we would conclude transactions with Russia only in dollars, our customers hesitated for some time. They sounded out the prospects for trade with other partners—China, Austria. China also has great deposits of manganese ore, world technology, and cheap manpower. They are serious competition for us. But our stability plus the fact that our alloys were going for $15-20 cheaper stopped the pointer on us for the Russians. We could lose all of this tomorrow. The deadline for paid export deliveries will come in two months—and we will be left to live in "background mode," working only for the needs of Ukraine. The domestic market is profitable for us, but it is only 20 percent of our product. There will be no hard-currency receipts either, since the cost of our alloys will not have any equals. Judge by the cost of electric power—it is 2.6 cents per kilowatt-hour in the United States, 0.8 in Norway, and 3.2 here....

[Khomych] Many are saying today that there are forces that, by putting production into difficult conditions of survival and thereby promoting its collapse, are trying in that way to devalue industry or get it for a song in privatization. You have found buyers abroad—I have in mind the Russian Gazprom.

[Kostanetskyy] Our plant, as an enterprise that is being privatized for vouchers, already has a value—it is 498 billion karbovantsi in prices as of January 1 of this year.... The State Property Fund of Ukraine is the holder of 100 percent of our shares of stock, in accordance with the standards approved by it for corporatized enterprises, and the shares will be distributed at 30 percent for cash and 70 percent for vouchers. We will be distributing shares of stock in blocks at noncommercial auctions, so that their owners are primarily those enterprises or organizations that are suppliers of raw materials or are customers for our products. The administration of the enterprise will hold 5 percent of the shares, as stipulated by prevailing standards. As for ordinary shareholders who work at our enterprise, we tell people that no one has yet been able to get rich from the vouchers, and hardly will, but by investing a "voucher" in your enterprise you are getting a guarantee of work at it, of social benefits, of the corresponding wages etc. It is entirely unrealistic to be talking about any profits today—they are going to see that production can function.

As for integration on a larger, interstate scale, we are not against the creation of industrial-financing groups if it is something advantageous. But everything depends on who is seeking it, and for what purpose. Hence the question—what do we need Gazprom for? Our enterprise is young, we have modern equipment, and we will not require any investment. We also do not have a vested interest in getting wheeler-dealers who squeeze what they can out of the equipment in two or three years and leave the plant to the whims of fate. We are thus prepared, as we have always been, to solve our own problems ourselves and work for the economy of our own nation.

[Khomych] Don't you think that a situation could arise where they do not ask the will of the enterprise—debt is debt, they knew what they were doing, it has to be repaid?

[Kostanetskyy] Ultimatums are not the best way out of any situation, particularly when we are talking about economics. Even if someone would like to see it very much that "superhard currency," mineral resources or fixed capital, go for the debts, no one would gain from it. But in the interests of our economy, so that financial matters in the state become more dynamic, the current artificial restraint of the exchange rate of the karbovanets to the dollar is promoting stability neither in the economy nor in the debt settlements. I feel that it is important not to be given to the creation of problems in this sphere, and we are counting very much on privatization in this regard. We intend to pursue it as fast as possible, and to take into account as much as possible the interest of our enterprise and those who are working at it as well. There can be no talk of some controlling block of shares held by foreign investors.

What bothers us today is the fact that we do not have to go far to find opportunities for fruitful work of the enterprise. We wrote about that in our letter to Leonid Kuchma, we hope you will listen to us. We cannot put out products with an $80 loss for us on each tonne of ferroalloys. We will go bankrupt in such a situation, and with us the people who are employed at the enterprise, the miners who produce the ore, and the steel smelters. A whole chain. We are thus asking whether a concessionary rate of 2.2—2.3 cents per kwh for electric power could be set to help us in the reconversion of the currency of Ukraine with foreign nations who are world producers of the same products. What we are counting on therein is that we will be given an opportunity to work and earn hard currency for the nation.

Belarus

*Railroad Chief Appeal to CIS RR Specialists

954E1139A Moscow GUDOK in Russian 2 Jun 95 p 1

["Appeal by Belarusian Railroad chief Ye. Volodko: "Appeal to CIS Railroad Managers and Specialists"]

[FBIS Translated Text] Minsk—After dividing the pool of freight railcars between the railroads of the former Union republics, the Belarusian Railroad has been providing a full volume of depot and capital repairs of its rolling stock in keeping with the traffic safety requirements in effect on the entire network of CIS railroads.

Despite extremely difficult economic conditions and acute shortage of finances, it is conducting large-scale reconstruction of modernization of the production base, aiming at further raising its technical level and expanding its functional capabilities. All these efforts are bearing fruit. To our knowledge, not a single CIS railroad has reason to complain regarding the current technical condition of our railcars.

At the same time, we are experiencing considerable financial, technical, and organizational difficulties in connection with the fact that as it stands now, approximately one-fourth of our rolling stock, which is currently on the territory of Moldova, Central Asia republics, and the Transcaucasus and which ended up there before the division of the rolling stock, cannot return to the Belarusian Railroad for scheduled maintenance. The reason is that these railcars are set on brass-bearing wheelsets, and a change of station is prohibited. And some of the railcars are partially dismantled altogether.

On the other hand, more than 150 cars that belong to Armenia, Azerbaijan, Georgia, and other CIS countries and long past their depot and capital repair schedule are idling on our railroad. But their owners show no desire to either restore this rolling stock to working condition on their own or to pay for our depots to do so. I am certain that other railroads are experiencing the same difficulties.

We are also very concerned over the problem of wear and tear on wheel flanges. Scientists and specialist in the CIS major scientific and design organizations are offering several options for its solution. They include using effective lubricants that reduce the friction between the wheel and the rail; turning the bogie around, since in the same wheelset one flange gets worn out less than the other; and other methods. At the Belarusian Railroad we are finding the means, albeit with great difficulty, to purchase the equipment and materials needed for this purpose (including from the far abroad) and conduct the necessary preventive measures.

Unfortunately, far from all railroads are paying the proper attention to this problem, which creates a real threat to traffic safety and in the near future may produce serious negative consequences.

In this connection we propose to analyze in-depth the current situation at the next meeting of the CIS Rail Transportation Council and to work out measures that will help to eliminate the aforementioned "sore spots." And at the same time to find ways to prevent the "pirating" of roller-bearing wheelsets, purchased by other railroads with their money.

It is also necessary to work out measures of liability of all depots on the railroad network for violating normative documents currently in effect, which envisage, in particular, mandatory welding of orifice plate to the roller of the cisterns' loading trap door in the process of their scheduled maintenance. Ignoring this requirement results in considerable theft of cargo.

We consider premature the ban of the Russian Federation Ministry of Railroads [RF MPS] on exploitation of sides and upper spring beams of freight bogies that have served for more than 30 years. Defectoscopic and other research shows that they are quite fit for further safe use after that time span. This ban only creates additional difficulties during railcar transfers at junction stations.

We could maintain and modernize the rolling stock even better if the money we earned at the railroads of Latvia, Estonia, and Moldova, which is kept by the RF MPS, were returned to the Belarusian Railroad in a timely fashion.

We share the concern voiced in a television interview by G. Fadeyev, chairman of the CIS Rail Transportation Council, on the results of the Odessa conference of heads of railroad administrations, and call on our colleagues to share our concern over the state of affairs with respect to railcar stock, support our proposals, and use all available means to improve the technical condition of railcars.

Kazakhstan

Karmet Past Reviewed, Problems Detailed

954F2735A Almaty KAZAKHSTANSKAYA PRAVDA in Russian 7 Jul 95 No 27, p 2

[Article by Candidate of Economic Sciences Dmitriy Parfenov: "A Dead End With Multiple Unknowns: What Karmetkombinat Has in Store for the Management Company"]

[FBIS Translated Text] Temirtau-Karaganda-Almaty—**Dmitriy Parfenov already is familiar to KAZAKHSTANSKAYA PRAVDA readers as the author of the thought-provoking article "Foreigners We Trust. What About Our Own?" which was published in May of this year and provoked, to the best of our knowledge, an interested response in the republic's business circles. Parfenov took part in the work of the government commission on privatization of AvtoVAZ and in the drafting of normative documents on privatization and nonstate pension funds in the Russian Federation, was brought in by the Kazakhstani firm Butya as an economic consultant, and is currently vice president of this company. The commentary offered to the reader today was written by Dmitriy upon his return to Almaty from the Karaganda Metallurgical Combine [Karmet], where he was in charge of the flow of financial resources during the time the enterprise was under the management of the Fest-Alpine-Kazakhstan SP [joint enterprise] from 23 May to 8 June of this year.**

Prices on the world metal market over the past year permitted practically all the Russian metallurgical combines to get to their feet (prices rose 1.6- to 1.7-fold). But the pride of Kazakhstan— the Karaganda Metallurgical Combine—remains in deep trouble, despite its proximity to the source of raw materials and the fact that it was one of the latest to modernize among analogous Union enterprises. Many people blame objective reasons for this: the disintegration of the USSR, disruption of cooperative ties, shrinking of the ruble zone, and so on.

In 1992 Karmet produced 4.3 million tonnes, in 1993—3.4 million tonnes, and in 1994—2.3 million tonnes of metal. One could assume that this was the effect of the devaluation of the tenge, but on the other hand, the drop in the ruble's value in 1991 was far more catastrophic, and Karmet nevertheless held its ground then. In my opinion, the causes are to be found in subjective factors. Macroeconomic cataclysms would not have been so devastating for the steel giant had its management system not degenerated from the inside.

The last socialist-era Karmet director (April 1991-December 1992) was A. Svichinskiy. From the economic standpoint he made several mistakes. For instance, when economic difficulties became clearly visible, with his consent free fares on the Temirtau city public bus system were authorized. To this day an unfinished cluster of 150-200 two-story cottages stands in the city as a monument to economic mismanagement. There are other examples of his wasteful approach. But A. Svichinskiy was a forceful, strong-willed person; he kept a lid on theft in the combine—which is probably why he was killed.

After A. Svichinskiy, Karmet's economics completely collapsed. Nothing could stop the swarm of firms and small businesses that attached themselves to state property like leaches. Judge for yourself. In January 1994 the combine charged for its cold-rolled metal $104 per tonne, in February—$71, in March—$71, and in April—$17. But at the same time the price of cold-rolled metal on the world market never dipped below $170. Such a correlation emerged because for four months the combine's management sold the metal without adjusting the price in proportion with the decline in the tenge exchange rate. In real terms, the metal was being sold at half its real production cost. The difference undoubtedly settled in someone's pockets. This could be explained by the sluggishness of the combine's management, which only in April of last year shifted to accounting in dollar equivalent. In whose interests, however, was such "sluggishness?"

After the spring of 1994, the combine's slide into the debt pit began to accelerate. By January of this year its aggregate debt had reached $250 million. The enterprise lost its own working capital. To many creditors, the combine had only one thing to say: We have no money and do not anticipate having any. But some creditors positioned themselves strategically and firmly held Karmet by the throat. How?

A metallurgical combine is a continuous-cycle enterprise. Any stoppage is fraught with losses in the millions. Therefore, the foremost problem is maintaining an uninterrupted supply of raw materials. First of all, ore concentrate and pellets from the Sokolov-Sarbay ore deposit and coal from Karaganda mines. By 25 May of this year the inventory of Sokolov-Sarbay ore had dwindled to a nine-day supply, that of coal—to a three-day supply. The combine's debt to the companies supplying these materials stands at tens of millions of dollars. Demanding payment on the debt, they presented Karmet with an ultimatum: Each day, the amount of raw material shipped to the combine will be equal to the value of the metal it ships. Essentially, Karmet is trapped by these companies like a fish on a hook: Both prices and terms of shipment are being dictated to it. By buying raw materials though intermediaries, the combine loses at least 15 percent of gross proceeds, which could increase its profits two- to threefold. There is only one way to break out of this vicious circle: establish direct ties with raw material producers. But doing this will require untied money, which the combine does not have. **This is Karmet's main problem.** It needs to get rid of intermediaries and shift to direct deliveries. In addition, the enterprise has numerous other problems.

Equipment wear and tear, shortage of spare parts. In trying to keep its main creditors—the raw material suppliers—supplied with metal, Karmet is unable to direct funds into purchasing things less vital but no less important. Without spare parts, rolling mills are operating in a critical condition. Frequent breakdowns not only reduce productivity but also could result in a major accident.

Capital repairs. Vitally important segments of the combine are in need of capital repairs. The pickling units are in an especially serious condition. Because of leaks, usage of acid exceeds the norm several-fold. The problem is not just the wasted material. Acid corrodes the units, turn metal into dust. Not only are the pickling units themselves subjected to harmful effects. The shop air is saturated with acid vapors, which are dispersed through the ventilation system to other shops. This increases corrosion of other mechanisms, especially electric motors. Nobody even mentions any longer the people who breathe this air.

Capital construction. The aluminum-plating plant has been under construction since 1989. All that is needed to bring it on line is $45-50 million. The combine does not have this money. Japan has opened a credit line for the purchase of coking gas purification equipment. But the combine does not have enough funds to do the necessary construction and erection work.

Theft. In my opinion, practically all the combine's links in the product shipping chain—from watchmen to various level managers—are corrupt. There is a tax of sorts—$5 per tonne of metal. The objective causes are as follows. No more than 10 percent of the sales volume goes through the enterprise's account. Most account clearing is accomplished through barter: ore for metal, coal for metal, and so on. Barter by itself complicates mutual clearing and makes control more difficult. At the combine the situation is also exacerbated by the debt. When metal is delivered in payment for old debts, it is impossible to set a fair price. The argument is simple: People have been waiting for a long time, so we need to make some concessions to them—but for making these concessions a certain person receives a certain compensation. Corruption is evidenced by the fact that there are always more shipping bills in the shops than the product. Which means that even if the combine management authorizes all the necessary documents for you, this does not at all mean that the metal will be shipped to you rather than someone else. You still have to make arrangements with the low-level "pegs" to "place" your shipping bill at the top of the shipping queue.

Accounting. The system of the combine's accounting department operations is designed in such a way that it is the last to receive financial documents. First they go to the financial department, the computer center, other units, and only the last stop is accounting. Moreover, the accounting department is working not with original documents but with processed aggregate data. As a result, documents float around the combine for months before they get into financial reports. Balance sheets are compiled with a month's lag. Nobody knows precisely how much the combine owes and to whom, and who owes what to the combine. Months pass without mutual clearance of accounts. The foreign relations department keeps its own accounting. As a result, combine personnel themselves admit that their data are "precise" to the tune of plus or minus $30-40 million. The combine has one operating, three foreign currency, and three transit accounts. None of the departments can produce a daily report summarizing the flow of financial resources. The reason—groups of units in a way control their accounts. The result—nobody at the combine has a reasonable idea of product cost. A paradox: Karmet's debt grew to the point of $300 million, while the enterprise, if one is to believe its official paperwork, has been operating at a profit practically the whole time. Where is this profit? There is concern that the product cost is understated. Because it makes it easier to sell the metal cheaper. But for the combine itself to not know the true state of affairs is ruinous.

Wages. Issuance of wages is over two months in arrears. The wages are extremely low for a metallurgical enterprise. As a result, skilled cadres are leaving. There is a shortage of experienced blue- collar workers and technicians, financial staff, and administrators.

Suppliers. The enterprise's debts amount to about $300 million. This money is owed to the combine's suppliers. Many of them are relatively independent, since they sell their products to other enterprises as well. But many simply do not have any customers other than the combine. As a result of chronic nonpayments these suppliers are in an extremely severe financial situation. People are not paid for five or six months, and cannot pay their taxes. The collectives of many of the combine's suppliers are in a pre-strike state.

Coal. The combine's most significant partner is Karagandaugol. Disruption in coal shipments would amount to a catastrophe, since this would wreck coking batteries, whose restoration would require hundreds of millions of dollars and a long downtime in production. But Karagandaugol also is living through far from the best of times. Only mines producing coking coal are profitable. Profit from coking coal is distributed evenly throughout all mines and auxiliary production units. As a result, there is not enough money even to pay wages. In order to produce coal without interruption, walls must be prepped. Prepping a wall takes six months. No investment is currently being made in the development of coal production.

The city's problems. Temirtau is a company town. The survival of many enterprises working for Karmet depends solely on the combine. If the combine does not pay, the city budget runs dry. Because of the combine's debts, hot water is being turned off in the city.

Karmet is at a dead end. It is a bankrupt enterprise. And it keeps getting worse. The enterprise's largest de facto creditor is the state itself. It "ensures" payment of what is owed to it in ways even more drastic than other creditors. When money is owed to the state, it treats the enterprise's account as its own. For instance, the bankruptcy reorganization decree, dated 27 December 1995 [as published] contained a point on paying off debts to the budget. Monthly priority payments were set at $6.5 million, despite the fact that entire profit rarely rose above this mark. Thus, this point alone inevitably meant reduction of the working capital and new debt, especially considering that the state carries out compulsory withdrawal of priority payments to the budget. The combine's management, however, got around this point rather easily. As already mentioned, the entire system of clearing was shifted to barter and mutual offsetting, and no more than 10 percent of turnover went through the account. The state again ended up with pocket change. Such a system, because of its lack of accountability, is a basis for corruption.

Despite all the decrees, the state still has not been able to appropriate the money to transfer from the enterprise's to the city's books the social sphere, whose maintenance costs Karmet almost $3 million—almost half its profit.

Targeted credits were given to Karmet at a 220-290 percent interest rate. Charging such interest in conditions of a stabilized tenge exchange rate is nonsense. Why were the interest rates not fixed in dollars? Almost half of the enterprise's debt to the budget currently consists of fines levied by the tax inspectorate. What is the point of levying such fines when the enterprise is insolvent to begin with?

Only powerful outside forces can pull Karmet out of the abyss.

The enterprise was not audited before being transferred to outside management. The government still does not have a good idea of the true state of affairs at the combine, so what does it want from the management company? All one hears is: Debts need to be paid! To whom, what debts, and how urgently remains unclear.

The bid for outside management should have been announced publicly, in order to attract the maximum number of competing companies and select truly the best proposal.

FROM THE EDITORS. We have learned that the group of outside management companies under the umbrella of the USS, to which Karmet has been transferred, has by now contributed more than $25 million toward its debt repayment. Keeping in mind the short time the USS has spent at the combine's helm, in the opinion of specialists, this is a rather impressive amount, which shows the potential of the enterprise's new management. Apparently they were not confused by the numerous "unknowns" enumerated by D. Parfenov....

Rising Caspian Changes Geopolitical Scene

954F2731A Almaty KAZAKHSTANSKAYA PRAVDA in Russian 6 Jul 95 p 2

[Article by Kakimbek Salykov, leader of the group of experts of the National Council of the Republic of Kazakhstan on problems of the Caspian Sea, under the rubric "Cooperation": "The Lake With the Fate of a Sea"]

[FBIS Translated Text] Recently in the mass media there have been more frequent articles and broadcasts concerning events surrounding the Caspian Sea.

In the first place, everyone is on their guard over the continuing rise of the level of the sea and the flooding of the coastal strip. The rise of the level of the Caspian can no longer be considered merely an "extraordinary occurrence"; it is time to see it as an ecological disaster that is long term in nature. In fact, beginning in 1978 through the present the level of the Caspian has risen almost 2.5 meters. The average annual increase has been 14 cm, and in certain years this figure has been increased by a factor of almost 2-2.5. Within the republic alone during the aforementioned period the sea has moved onto the dry land by an average of 15-20 km, flooding large areas of agricultural land and a number of oil fields. According to predictions and scientific estimates of scientists of the Russian Federation and Kazakhstan, the transgression of the Caspian Sea will continue for no less than 25-30 years. Certain specialists and scientists think that in 40-50 years the level of the sea will have risen by five to six meters. Even in the next 15 years up to 100 population points, more than 40 oil deposits, fields, and facilities for processing it, thousands of kilometers of highways and railroads, electric power and communications lines, water lines, oil pipelines, and many other objects will end up in the zone of anticipated flooding and underflooding.

In the second place, the Caspian has become a sea of five states. Our journalists have been paying especially close attention to this problem since the scientific-practical conference held at the Kazakhstan Institute of Strategic Research under the president of the Republic of Kazakhstan, "The Legal Status of the Caspian Sea, Problems and Prospects for Cooperation of Caspian States."

The conference was indeed timely. Diplomats, political scientists, and various specialists and scholars from Azerbaijan, Iran, Kazakhstan, and the Russian Federation participated in it. Only one shortcoming was noticed: It was attended by few experts from among those who participated in interstate negotiations on the Caspian and the delegation from the Russian Federation contained none of the people we had met before.

The delegation from Turkmenistan was unable to attend the conference.

According to available information, the reason they did not attend has to do with the airline schedule. Here, however, it is important to note the following: The Turkmen experts when discussing the problems of both the Caspian and the Aral have always found a common language with their colleagues from other countries, and measures of this kind taken in Turkmenistan are distinguished by special degree organization.

The subject discussed at the conference is timely and critical, and it requires the participants have an extremely respectful attitude toward one another. And the interpretations of the course of the negotiating process must show more tact and expertise.

I am convinced that the problems of the Caspian must be considered in two aspects. The primary one must be to provide for stable life activity of the population on the coast in view of the rise of the level of the sea. The next extremely important task is to preserve the unique bioresources of the Caspian and their diversity, which is complicated by the rise of the level of the sea and also the phenomenon of "mixing of the waters"—sea and river— with the lower layers of the sea.

These extremely difficult problems cannot be solved by any one of the Caspian states alone. It is necessary first of all to determine the new legal status of the Caspian Sea and accept the framework agreement that has been developed concerning regional cooperation in the Caspian countries.

Certain Clarifications to the Draft Convention on the Legal Status of the Caspian Sea (Proposed by Kazakhstan)

Because of the formation of four independent states on the coast of the Caspian (Azerbaijan Republic, Republic of Kazakhstan, Turkmenistan, and Russian Federation), the development of cooperation in its basin assumes a multilateral nature. The legal conditions for the Caspian Sea determined by the agreement between Russia and Iran of 25 February 1921 and the agreement between the USSR and Iran of 25 March 1940 no longer correspond to the geopolitical realities. With the proclamation of the independence of the coastal states, the aforementioned documents essentially lost their legal force.

Taking into account the opinions of all departments of the Republic of Kazakhstan that are interested in the Caspian, the National Council of the Republic of Kazakhstan on Problems of the Caspian in July 1994 approved the draft Convention on the Legal Status of the Caspian Sea and Agreement on Regional Cooperation Among Caspian States which were prepared by the council work group.

Drafts of the aforementioned documents were approved by our government and sent out to all the Caspian states. Before this there were suggestions from Iran, Kazakhstan, and the Russian Federation on the problems and the development of a contract or agreement on regional cooperation. Subsequently the question was reduced to what is primary and what is secondary—the convention or the agreement. One must consider one of the results of the Almaty conference to be that the main question was the legal status of the Caspian Sea. And in fact how can we progress in solving the problem when the fundamental concepts have not been decided?

It is gratifying that the need to adopt a new legal document was not disputed. Taking into account the new geopolitical changes that have taken place in the region and welcoming the new climate of cooperation and mutual understanding among the states of the Caspian region, it is necessary to update the old documents that were drawn up between Iran and the former Soviet Union, which are no longer valid. All were unanimous about this. But the discussion of the new legal status of the sea has just begun, and they have agreed to continue it.

In the draft convention developed by the Kazakhstan side the Caspian Sea is regarded as an intracontinental, internal-drainage body of water which has no natural link to the World Ocean. The scientists are actually agreed: The Caspian is a lake; this is a generally accepted scientific determination which nobody disputes. But historically this has developed as a nuance: The Caspian has access to the Black Sea through the channels of the Volga and the Don. Therefore we call it a "lake-sea." The possibility of using the channels for shipping is the prerogative of the Russian Federation, and such issues require special agreements. But why can we not take advantage of the fact that it is connected to the World Ocean even if it is in a natural-artificial way? Based on this motive, Kazakhstan is constructing its arguments in a mild, unobtrusive form reminiscent of Balzac's words to the effect that society lives by recognized truths.

The whole thing amounts to a question of whether to divide up the sea or not. There have been proposals both to recognize the Caspian as a border lake and to give it the status of a sea and to establish borders on the basis of existing norms of maritime law.

Kazakhstan's version proposes something in between. I quote from Article 15 of the draft convention: "The basic provisions of the UN Convention on the Law of the Sea of 1982 shall apply to the Caspian Sea. The state border shall be fixed at the breadth of the territorial waters and borders shall also be established for the exclusive economic zone of each coastal state. On the basis of the measurement of the breadth of the territorial waters and the exclusive economic zone, the average many-year level shall be taken as equal to the minus 28.0 B.S. [unidentified] mark (relative to the Kronstadt fugrshtok [as transliterated])).

The generally recognized truth is that we call the Caspian the Caspian Sea (this is its usual geographical name as a natural object). In the UN document the Caspian Sea is recognized as an intracontinental internal-drainage body of water, and the standard definition is given in the text of the draft convention, and therefore it should not be regarded as a "lake" transformed into a "sea."

It is necessary to try to grasp the meaning of the word "extends." Even if we give the Caspian the status of a "lake-sea" we still have not achieved complete agreement with this interpretation, and this is why "extends" is the most convenient wording.

A new geopolitical situation has developed in the region: Who will deny the now independent states of the post-Soviet part of the Caspian coast territorial waters with a breadth of 12 nautical miles? The only thing disputable and new is the concept of the "exclusive economic zone." A number of experts and authors of articles do not pay serious attention to this aspect, but others speak out loudly: Let us divide it.

Let me explain: The exclusive economic zone is a coastal strip of up to 200 nautical miles where the coastal state has the right to adopt laws and rules concerning prospecting for, working, and preserving natural resources located on the bottom, in the earth, and in the surface waters and monitor compliance with them. Because of the fact that the breadth of the Caspian Sea at the minus 28 mark does not exceed 200 nautical miles, the borders of the exclusive economic zone pass through the median line equidistant from the shores of the states situated on either side. The lateral borders are fixed from the point of the end of the land border along the direct perpendicular to the aforementioned median line of the sea.

If the boundaries of the territorial waters of each zone of the Caspian Sea are considered to be the state border, the contours of the exclusive economic zone do not have such a status. Article 2 of the draft convention, which gives the principles of the cooperation and activity, envisions the utilization of the Caspian Sea for peaceful purposes, free passage for ships of the Caspian states, protection of the environment of the water area, etc. And it certainly does not follow that the existence of an exclusive economic zone presupposes strict territorial separation. The economic situation that has developed in the new independent states provides the motivation to resort to this fairly popular measure.

Certain gentlemen who have not carefully studied the matter speak about "division" of the sea, while the Kazakhstan draft of the convention clearly stipulates the handling of all questions of joint utilization of the Caspian.

I am convinced that the adoption of the Convention of the Legal Status of the Caspian Sea should be accelerated at a high level. And the next step would be an agreement or treaty on regional cooperation.

On the Draft Agreement on Regional Cooperation in the Caspian Sea

There are various versions of this document proposed by the Islamic Republic of Iran, the Russian Federation, and Kazakhstan. They do not differ significantly from one another, and as a basis one could take, for example, the Iranian or Russian versions. I think that at their first meeting the experts will be able to find a common language and prepare this document.

In order for the agreement to actually work it is necessary to create interstate organs which would contribute to the achievement of a consensus in resolving various problems.

For example there is a great need for a joint scientific-coordination center where they would consider together questions of protection of the population and the national economy from the encroaching Caspian. Do you remember that in times past there used to be a festival "The Caspian—Sea of Friendship"? This formula should still be the guiding star for everyone.

Draft Constitution of Kazakh Republic

954F2714A Almaty KAZAKHSTANSKAYA PRAVDA in Russian 4 Jul 95 pp 1-3

["Draft Constitution of the Kazakh Republic"]

[FBIS Translated Text]

We the people of Kazakhstan,

joined by a common historical fate,

creating statehood on the ancient Kazakh land,

recognizing ourselves to be a peace-loving civil society committed to the ideals of liberty, equality, and harmony,

wishing to occupy a fitting place in the world community,

recognizing our lofty responsibility to the present and future generations,

and proceeding from our sovereign right,

adopt this constitution.

Section I. General Provisions

Article 1.1. The Kazakh Republic affirms itself to be a democratic, secular, law-based, and social state, whose highest values are man and his life and rights and liberties.

2. The fundamental principles of the activity of the Kazakh Republic are social harmony and political stability; economic development for the good of the whole people; Kazakhstani patriotism; the solution of the most important questions of state life by democratic methods, including voting at a republic referendum or in parliament.

Article 2.1. The Kazakh Republic is a unitary state with a presidential form of rule.

2. The sovereignty of the Kazakh Republic shall extend throughout its territory. The state shall ensure the integrity, inviolability, and inalienability of its territory.

3. The administrative-territorial arrangement of the Kazakh Republic and the location and status of its capital shall be determined by law.

4. The appellations Kazakh Republic and Kazakhstan are equivalent.

Article 3.1. The sole source of state power are the people.

2. The people shall exercise power directly via a republic referendum and free elections and shall also delegate exercise of their power to state authorities.

3. No one may appropriate power in the Kazakh Republic. The appropriation of power shall be prosecuted according to the law. The right to speak on behalf of the people and the state belongs to the president and the parliament of the Kazakh Republic. The government and other state authorities shall speak on behalf of the state only within their authority.

4. State power in the Kazakh Republic is unified and is exercised on the basis of the constitution and the laws in accordance with the principle of its separation into legislative, executive, and judicial branches and their interaction among themselves with the application of a system of checks and balances.

Article 4.1. The provisions of the Constitution and of the statutes and other normative legal documents corresponding to it and also normative decisions of the Supreme Court of the Kazakh Republic represent effective law in the Kazakh Republic.

2. The Constitution has supreme legal force and direct operation throughout the Kazakh Republic.

3. International treaties ratified by the Kazakh Republic take precedence over its laws and shall apply directly, except in instances where it follows from an international treaty that promulgation of a law is required for its application.

4. All laws and international treaties to which the Kazakh Republic is a party shall be published. The official publication of normative legal documents concerning the rights, liberties, and obligations of the citizens is a binding condition of their application.

Article 5.1. Ideological and political diversity are recognized in the Kazakh Republic. No ideology may be established as official or binding. A merger of public and state institutions and the creation in state authorities of party and trade union organizations are prohibited.

2. Public associations are equal before the law. The state's illegal interference in the affairs of public associations and of public associations in the affairs of the state, the entrusting to public associations of the functions of state authorities, and state funding of public associations are prohibited.

3. The creation and the activity of public associations whose purposes or actions are geared to a forcible change in the constitutional system, a violation of the integrity of the Kazakh Republic, the undermining of the security of the state, and the incitement of social, racial, national, religious, class, and tribal discord and also the creation of militarized formations for which legislation makes no provision are prohibited.

4. The activity of political parties and trade unions of other states and also the funding of political parties and trade unions by foreign legal entities and citizens, foreign states, and international organizations in the Kazakh Republic are prohibited.

5. The activity of foreign religious associations on the territory of the Kazakh Republic and also the appointment by foreign religious centers of the leaders of religious associations in the Kazakh Republic shall be exercised by arrangement with the appropriate state authorities of the Kazakh Republic.

Article 6.1. Public and private property are recognized and afforded equal protection in the Kazakh Republic.

2. Property carries obligations, and its use should simultaneously serve the public good. The subjects and objects of property and the extent and limits of owners' exercise of their rights and the guarantees of their protection shall be determined by law.

3. The land and its interior, waters, the plant and animal world, and other natural resources shall be publicly owned and may also be privately owned on the grounds and conditions and within the limits established by law.

Article 7.1. In the Kazakh Republic the official language is Kazakh.

2. Russian shall be employed officially in state bodies and local government authorities on a par with Kazakh.

3. The state shall guarantee the preservation of a sphere of application of all languages of the people of Kazakhstan and shall display concern for the creation of the conditions for their study and development.

4. Qualification of the rights and liberties of the citizens on the basis of ignorance of the official or some other language is prohibited.

Article 8.1. The Kazakh Republic respects the generally recognized principles and rules of international law and pursues a policy of cooperation and neighborly relations between states and their equality and noninterference in one another's internal affairs and the peaceful resolution of international disputes.

2. The Kazakh Republic renounces war and first use of armed force and aspires to a policy of neutrality.

Article 9. The Kazakh Republic has official symbols—a flag, coat of arms, and an anthem. Their description and procedure of official use shall be established by constitutional statute.

Section II. Man and Citizen

Article 10.1. Citizenship of the Kazakh Republic shall be acquired and terminated in accordance with the law and shall be integral and equal, regardless of the grounds on which it was acquired.

2. Under no circumstances may a citizen of the Kazakh Republic be stripped of citizenship or the right to change his citizenship, nor may he be expelled from Kazakhstan.

3. Citizenship of another state is not recognized for a citizen of the Kazakh Republic.

Article 11.1. A citizen of the Kazakh Republic may not be extradited to a foreign state unless otherwise established by international treaties of the Kazakh Republic.

2. The Kazakh Republic shall guarantee its citizens protection and patronage outside of it.

Article 12.1. The rights and liberties of the individual shall be recognized and guaranteed in the Kazakh Republic in accordance with this constitution.

2. Rights and liberties of the individual belong to everyone from birth, are deemed absolute and inalienable, and shall determine the content and application of laws and other normative legal documents.

3. Each citizen of the Kazakh Republic has rights and bears obligations by virtue of his actual citizenship.

4. Foreigners and stateless persons shall enjoy in the Kazakh Republic the rights and liberties and also bear the obligations established for citizens unless otherwise specified by the constitution, laws, and international treaties.

5. The exercise of the rights and liberties of man and citizen must not violate the rights and liberties of other persons or endanger the constitutional system and public morals.

Article 13.1. Each person shall be entitled to recognition of his legal personality and shall have the right to protect his rights and liberties in all ways, including justifiable defense, that are not in contravention of the law.

2. Everyone shall have the right to judicial remedy as regards his rights and liberties.

3. Everyone shall be entitled to obtain qualified legal assistance. In the instances specified by law, legal assistance shall be rendered free of charge.

Article 14.1. All are equal before the law and the court.

2. No one may be subjected to any discrimination on the grounds of origins, social, official, and property position, sex, race, nationality, language, faith, political and religious beliefs, or place of residence or on account of some other circumstances.

Article 15.1. Everyone has the right to life.

2. No one shall be entitled to arbitrarily deprive a person of his life. The death penalty is established by law as an exceptional measure of punishment for heinous crimes with the convicted party being accorded the right to apply for a pardon.

Article 16.1. Everyone shall be entitled to personal liberty.

2. Arrest and custody shall be permitted only in the instances specified by law and only with the approval of the prosecuting attorney, with the arrested party being accorded the right of judicial appeal. A person may be held in detention for a period of no more than 48 hours without the approval of the prosecuting attorney.

3. Each detainee, person held in custody, and persons charged with having committed a crime shall be entitled to avail themselves of the assistance of a lawyer (defense attorney) from the time, respectively, of the detention, custody, or preferral of the charge.

Article 17.1. Dignity of person is sacred.

2. No one must be subjected to torture, violence, or other treatment or punishment which is cruel or degrading of human dignity.

Article 18.1. Everyone shall have the right to inviolability of private life, a personal and family secret, and defense of his honor and good name.

2. Everyone shall have the right to secrecy of personal deposits and savings, correspondence, telephone conversations, and postal, telegraph, and other communications. Qualifications of this right shall be permitted only in the instances and in the procedure directly established by law.

3. The collection, storage, use, and dissemination of information on the private life of a citizen without his consent are not permitted.

4. State authorities, public associations, and officials shall be required to ensure for each citizen the possibility of familiarization with documents, decisions, and other material affecting his rights and liberties.

Article 19.1. Everyone shall be entitled to determine and indicate or not indicate his national, party, and religious affiliation.

2. Everyone shall be entitled to the use of his native language and culture and to free choice of language of communication, education, tuition, and creativity.

Article 20.1. Freedom of speech and creativity are guaranteed. Censorship is prohibited.

2. Everyone shall have the right to freely obtain and disseminate information in any way not prohibited by law. The list of information constituting state secrets of the Kazakh Republic shall be determined by law.

3. Propaganda of or campaigning for a forcible change of the constitutional system, a violation of the integrity of the Kazakh Republic, the undermining of the security of the state, war, and social, racial, national, religious, class, and tribal superiority and also a cult of brutality and violence are banned.

Article 21.1. Everyone who is on the territory of the Kazakh Republic legitimately shall be entitled to unrestricted movement about its territory and unrestricted choice of place of residence, except in the instances stipulated by law.

2. Everyone shall be entitled to leave the Kazakh Republic. Citizens of the Kazakh Republic shall have the right of unimpeded return to the Kazakh Republic.

Article 22.1. Everyone shall have the right to freedom of worship, faith, and the proclamation of religious views.

2. The exercise of the right to freedom of worship, faith, and the proclamation of religious views must not condition or limit general and civil rights and obligations to the state.

Article 23.1. Citizens of the Kazakh Republic shall be entitled to freedom of association. The activity of public associations shall be regulated by law.

2. Servicemen, officers of national security authorities and the law enforcement authorities, and judges must refrain from membership of parties and trade unions and speeches in support of any political party. In respect to membership of trade unions and speeches in support of them this limitation shall extend to public servants also.

Article 24.1. Everyone shall have the right to freedom of labor and freedom of choice of type of activity and occupation. Forced labor shall be permitted only in accordance with a sentence of a court or under the conditions of an emergency or martial law.

2. Everyone shall have the right to work conditions in keeping with the requirements of safety and hygiene and

to compensation for labor without any discrimination and also to social protection against unemployment.

3. The right to individual and collective labor disputes with the use of ways of resolving them established by law, including the right to strike, is recognized.

4. Everyone shall be entitled to recreation. Persons employed on a labor contract shall be guaranteed the length of the work week, the days off and holidays, and the paid annual leave established by law.

Article 25.1. The dwelling place is inviolable. Deprivation of dwelling place, other than in accordance with a judgment of the court, is not permitted. Entry into a dwelling place and its inspection and search are permitted only in the instances and in the procedure established by law.

2. The conditions shall be created in the Kazakh Republic for the provision of the citizens with housing. It shall be made available to the categories of citizens in need of housing specified in law for an affordable payment from available public housing in accordance with the rules established by law.

Article 26.1. Citizens of the Kazakh Republic may privately own any property acquired legitimately.

2. Ownership and the right of inheritance are guaranteed by law.

3. No one may be deprived of his property other than by a judgment of the court. Property may be compulsorily alienated for official needs in exceptional cases specified by law on condition of its equivalent compensation.

4. Everyone shall be entitled to freedom of entrepreneurial activity and the unrestricted use of his property for any legitimate entrepreneurial activity. Monopoly activity shall be regulated and limited by law. Unfair competition is prohibited.

Article 27.1. Marriage and the family, maternity, paternity, and childhood are under the protection of the state.

2. Concern for children and their upbringing are the natural right and obligation of parents.

3. Adult able-bodied children are required to care for their parents who are incapacitated for work.

Article 28.1. A citizen of the Kazakh Republic shall be guaranteed a minimum wage and pension and social security in old age and in the event of illness, disability, and loss of the breadwinner.

2. Voluntary social insurance, the creation of supplementary forms of social security, and charity are encouraged.

Article 29.1. Citizens of the Kazakh Republic shall have the right to health care.

2. Citizens of the Kazakh Republic shall be entitled to obtain free of charge the guaranteed amount of medical assistance established by law.

3. Paid medical assistance in public and private medical establishments and also from persons engaging in private medical practice shall be obtained on the grounds and in the procedure established by law.

Article 30.1. Citizens shall be guaranteed free secondary education in public educational institutions. Secondary education is compulsory.

2. A citizen shall be entitled to obtain on a competitive basis free higher education in a public higher educational institution.

3. Paid education in private educational institutions shall be obtained on the grounds and in the procedure established by law.

4. Education shall be under the supervision of the state. The activity of educational institutions shall be authorized if in terms of organization of the educational process, the programs, and the qualifications of the teachers they correspond to official educational standards.

Article 31.1. The state aims to protect an environment conducive to man's life and health.

2. Officials' concealment of facts and circumstances threatening people's life and health shall entail liability in accordance with the law.

Article 32. Citizens of the Kazakh Republic shall be entitled to assemble and stage gatherings, public meetings, and demonstrations, marches, and picket lines peacefully and without weapons. Enjoyment of this right may be qualified by law in the interests of state security, public order, and the safeguarding of the health and defense of the rights and liberties of other persons.

Article 33.1. Citizens of the Kazakh Republic shall be entitled to participate in the administration of the affairs of state directly and via their representatives and appeal in person and also send individual and group appeals to the state authorities and local government authorities.

2. Citizens of the Kazakh Republic shall be entitled to vote and to run for office in state bodies and local government bodies and also to participate in a republic referendum.

3. Citizens found by a court to be incapable and also those held in places of imprisonment in accordance with

a sentence of the court shall not be entitled to vote or run for office or take part in a republic referendum.

4. Citizens of the Kazakh Republic shall be entitled to access to public service. The demands made on a candidate for the office of public servant shall be conditioned only by the nature of the official duties and shall be established by law. The age of the public servant must not be more than 60, and in exceptional cases, 65.

Article 34.1. Everyone shall be required to comply with the Constitution and legislation of the republic and to respect the rights, liberties, honor, and dignity of other persons.

2. Everyone shall be required to respect the official symbols of Kazakhstan.

Article 35. The payment of legitimately established taxes, dues, fees and charges, and other compulsory payments is the duty and obligation of everyone.

Article 36.1. Defense of the Kazakh Republic is the sacred duty and obligation of each of its citizens.

2. Citizens of the Kazakh Republic shall perform military service in the procedure and forms established by law.

Article 37. Citizens of the Kazakh Republic shall be required to display concern for the preservation of the historical and cultural heritage and to take care of historical and cultural monuments.

Article 38. Citizens of the Kazakh Republic shall be required to preserve the natural environment and to treat natural resources solicitously.

Article 39.1. The rights and liberties of man and citizen may be qualified only by the laws and only to the extent necessary to defend the constitutional system and to safeguard public order, human rights and liberties, and the health and morals of the populace.

2. Any actions that could disrupt interethnic accord shall be deemed unconstitutional.

3. Qualification of the rights and liberties of the citizens on political grounds is not permitted in any form. Under no circumstances are the rights and liberties specified by Articles 10- 15; clause 1 of Article 16; Article 17; clauses 1 and 3 of Article 18; Article 19; Article 22; clause 2 of Article 26; and Article 27 to be qualified.

Section III. The President

Article 40.1. The president of the Kazakh Republic is the head of state and its highest official determining the main directions of the domestic and foreign policy of the state and representing Kazakhstan within the country and in international relations.

2. The president of the Kazakh Republic is the symbol and guarantor of the unity of the people and state power, the permanency of the Constitution, and the rights and liberties of man and citizen.

3. The president of the Kazakh Republic ensures by his arbitration the concerted operation of all branches of state power and the responsibility of the authorities to the people.

Article 41.1. The president of the Kazakh Republic shall be elected in accordance with a constitutional statute by adult citizens of the Kazakh Republic on the basis of general, equal, and direct suffrage by ballot for a five-year term.

2. A citizen of the Kazakh Republic who is at least 35 years of age and no older than 65, has a fluent command of the official language, and who has lived in Kazakhstan for no fewer than 10 years may be elected president of the Kazakh Republic.

3. Elections of the president of the Kazakh Republic shall be held on the first Sunday in December and may not coincide in timeframe with the elections of a new parliament of the Kazakh Republic.

4. Special elections of the president of the Kazakh Republic shall be held in the instances and within the timeframe established by clause 1 of Article 48 of this Constitution.

5. The elections shall be considered valid if more than 50 percent of the citizens eligible to vote have taken part in the ballot. The candidate who has mustered more than 50 percent of the vote of the constituents who took part in the ballot shall be considered elected. In the event of no candidate mustering the said number of votes, a runoff, in which the two candidates who mustered the largest number of votes shall participate, shall be conducted. The candidate who has mustered the larger number of votes of the constituents who took part in the ballot shall be considered elected in the runoff.

Article 42.1. The president of the Kazakh Republic shall assume office the moment he has sworn to the people the following oath: "I solemnly swear to faithfully serve the people of Kazakhstan, abide strictly by the Constitution and the laws of the Kazakh Republic, guarantee the rights and liberties of the citizens, and conscientiously discharge the high obligations of president of the Kazakh Republic entrusted to me."

2. The oath shall be administered on the first Wednesday in January in a ceremonial atmosphere in the presence of the deputies of parliament and members of the government, the Constitutional Court, and the Supreme Court and also all former presidents of the Kazakh

Republic. In the event of the election of a president at special elections, the oath shall be administered within one month following publication of the election results.

3. The powers of the president of the Kazakh Republic shall terminate the moment that the newly elected president of the Kazakh Republic assumes office and also in the event of the early release or dismissal of the president from office or his decease. All former presidents of the Kazakh Republic, except for those dismissed from office, shall retain the title of ex-president of the Kazakh Republic.

4. The powers of a president of the Kazakh Republic elected at special elections shall be exercised up to the assumption of office of a president of the Kazakh Republic elected at regular presidential elections, which are to be held in five years' time on the first Sunday in December.

5. One and the same person may not be elected president of the Kazakh Republic more than two times in succession.

Article 43.1. The president of the Kazakh Republic is not entitled to be a deputy of a representative body, hold office in other state bodies or public associations, or engage in entrepreneurial activity.

2. For the period of the exercise of his authority the president of the Kazakh Republic shall suspend his activity in political parties.

Article 44. The president of the Kazakh Republic:

1) shall address an annual message to the people of Kazakhstan on the situation in the country and the guidelines of the domestic and foreign policy of the Kazakh Republic;

2) shall schedule regular and special elections to the parliament of the Kazakh Republic;

3) shall convene the first session of parliament and administer the oath of its deputies to the people of Kazakhstan and convene special joint sittings of the chambers of parliament;

4) shall entrust to the government the submittal of bills to the parliamentary Mazhilis;

5) shall sign within 15 working days a law presented by the parliamentary Senate and publish a law or send it back for further discussion and a vote;

6) shall with the consent of parliament appoint to office the prime minister of the Kazakh Republic and also relieve him of office;

7) shall per a representation of the prime minister determine the structure of the government, appoint to office and relieve of office its members, and form, abolish, and reorganize other central executive bodies of the Kazakh Republic;

8) shall administer the oath to members of the Government of the Kazakh Republic and preside at sessions of the government on particularly important matters;

9) shall cancel or suspend fully or partially acts of the government and the hakim of oblasts, cities of republic significance, and the capital;

10) shall with the consent of parliament appoint to office the chairman of the National Bank of the Kazakh Republic and also relieve him of office;

11) shall appoint and recall the heads of diplomatic missions of the Kazakh Republic;

12) shall appoint to office for a five-year term the chairman of the Accounts Committee for control of administration of the republic budget;

13) shall confirm state programs of the Kazakh Republic;

14) shall per a representation of the prime minister confirm a unified system of financing and labor compensation for all bodies maintained by the state budget of the Kazakh Republic;

15) shall adopt a decision on the holding of a republic referendum;

16) shall negotiate and sign international treaties of the Kazakh Republic;

17) shall sign instruments of ratification;

18) shall receive the credentials and letters of recall of diplomatic and other representatives of foreign states accredited to him;

19) is the supreme commander in chief of the armed forces of the Kazakh Republic and appoints and replaces the top command of the armed forces;

20) shall confer state awards of the Kazakh Republic and bestow honorifics and the top military ranks and special titles, diplomatic ranks, and qualification classes;

21) shall decide questions of citizenship of the Kazakh Republic and the granting of political asylum;

22) shall pardon citizens;

23) shall in the event of democratic institutions of the republic and its independence and territorial integrity and the citizens' safety being under serious and immediate threat and of the normal operation of the constitutional authorities of the state having been disrupted, adopt, following official consultations with the prime minister

and the chairmen of the chambers of parliament, measures dictated by the said circumstances, including the imposition throughout Kazakhstan and in certain of its localities of a state of emergency and the use of the armed forces of the Kazakh Republic, with the immediate notification of parliament of this;

24) shall in the event of aggression against the Kazakh Republic or of a direct external threat to its security impose on the territory of the Kazakh Republic or in particular localities martial law, announce partial or general mobilization, and immediately notify the parliament of this;

25) shall form a service for protection of the president of the Kazakh Republic and a Republic Guard under his jurisdiction;

26) shall form the Office of the President of the Kazakh Republic;

27) shall form the Security Council, the Supreme Judicial Council, the Assembly of the Peoples of Kazakhstan, and other consultative and advisory bodies;

28) shall exercise other authority in accordance with the Constitution and laws of the Kazakh Republic.

Article 45.1. The president of the Kazakh Republic shall on the basis and in execution of the Constitution and the laws issue edicts and directives binding throughout the Kazakh Republic.

2. In exceptional cases specified by subclause 4 of Article 53 of the Constitution the president of the Kazakh Republic shall promulgate laws of the Kazakh Republic.

3. Acts signed and promulgated by the president of the Kazakh Republic shall be sealed respectively by the signature of the prime minister and the chairman of each chamber of parliament or of other senior officials who have been invested with the legal responsibility for the constitutionality and legality of the said acts.

Article 46.1. The president of the Kazakh Republic and his honor and dignity are sacrosanct.

2. The support, service, and protection of the president of the Kazakh Republic and his family shall be undertaken at the expense of the state.

3. The provisions of this article shall extend to ex-presidents of the Kazakh Republic.

Article 47.1. The president of the Kazakh Republic may be relieved of office early if he exhibits a steady incapacity for exercising his obligations owing to illness. In this case parliament shall form a special commission consisting of an equal number of deputies from each chamber and specialists in the corresponding fields of medicine. The decision on early release shall be adopted at a joint sitting of the chambers of parliament by a majority of no less than three-fourths of the total number of deputies of each chamber based on the findings of the commission and the findings of the Constitutional Court confirming compliance with the established constitutional procedures.

2. The president of the Kazakh Republic may be dismissed from office by parliament in the event of his having committed treason. The decision to press charges and to investigate him may be adopted by a majority of the total number of deputies of the Mazhilis on the initiative of no less than one-third of its deputies. The investigation of a charge shall be organized by the Senate, and its results shall by majority vote of the total number of members of the Senate be passed on for consideration by a joint sitting of the chambers of parliament. A final decision on this matter shall be adopted at a joint sitting of the chambers of parliament by a majority of not less than three-fourths of the total number of votes of members of each chamber if accompanied by findings of the Supreme Court concerning substantiation of the charge. A rejection of the final decision within two months as of the charge being brought shall entail the charge against the president of the Kazakh Republic being dismissed. The dismissal of a charge against the president of the Kazakh Republic of having committed treason in any phase thereof shall entail the early termination of the authority of members of the Mazhilis who initiated the consideration of this matter.

3. The question of the dismissal of the president of the Kazakh Republic from office may not be raised in a period when he is considering the question of the early termination of the authority of parliament.

Article 48.1. In the event of the early release or dismissal from office of the president and also of his decease, the discharge of the obligations of the president of the Kazakh Republic shall pass temporarily to the prime minister. If it is not possible for the prime minister to assume the obligations of the president, they shall pass to the chairman of the Senate. Special elections of the president of the Kazakh Republic must be held here within two months from the time of the early termination of the authority of the president of the Kazakh Republic.

2. The acting president of the Kazakh Republic shall not be entitled to dissolve parliament, terminate the powers of the government, or schedule a republic referendum or submit proposals concerning revisions and addenda to the Constitution.

Section IV. Parliament

Article 49.1. Parliament is the highest representative body of the Kazakh Republic exercising legislative functions.

2. Parliament's term is four years. The term of parliament begins as of the moment of the opening of its first session and ends with the start of business of the first session of the new parliament.

3. Parliament's term may be ended early in the instances and procedure specified by the Constitution.

4. The organization and activity of parliament and the legal position of its deputies shall be determined by constitutional statute.

Article 50.1. Parliament shall consist of two chambers: the Senate and the Mazhilis operating on a permanent basis.

2. The Senate shall be formed by deputies elected two persons per oblast, city of republic significance, and the capital of the Kazakh Republic at a joint sitting of the deputies of all representative bodies of the oblast, city of republic significance, and the capital of the republic respectively. Seven deputies of the Senate shall be appointed by the president of the Kazakh Republic for the term of parliament. Ex-presidents of the Kazakh Republic shall, unless they decline, be life members of the Senate.

3. The Mazhilis shall consist of 55 deputies elected by single- mandate territorial constituency, with an equal number of constituents, as a rule.

4. A deputy of parliament may not be a member of both chambers simultaneously.

Article 51.1. Deputies of parliament shall be elected on the basis of general, equal, and direct or indirect suffrage by ballot.

2. One-half of the elected deputies of the Senate shall be up for election every two years. Regular elections of the former shall be held here no later than two months prior to the end of their term. Regular elections of deputies of the Mazhilis shall be held no later than two months prior to the end of the term of the current parliament.

3. Special elections of deputies of parliament shall be held within two months from the moment of the early termination of parliament's authority.

4. A citizen of the Kazakh Republic who has attained to 30 years of age, has higher education and a length of service of no less than five years, and who has been a permanent resident of the corresponding oblast, city of republic significance, or the capital of the republic for no fewer than five years may be a deputy of the Senate. A citizen of the Kazakh Republic who has attained to the age of 25 may be a deputy of the Mazhilis.

5. The elections shall be considered valid if more than 50 percent of the citizens eligible to vote took part in the ballot. The candidate who has mustered more than 50 percent of the vote of the constituents who took part in the ballot shall be considered elected. In the event of no candidate mustering the said number of votes, runoffs, in which the two candidates who have mustered the largest number of votes shall participate, shall be held. The candidate who has mustered the larger number of votes of the constituents who took part in the ballot shall be considered elected in the runoff.

6. A deputy shall at the first session of parliament take an oath to the people of Kazakhstan.

Article 52.1. A deputy of parliament shall not be bound by any imperative mandate.

2. Deputies of parliament shall be required to take part in the work of its chambers and their bodies. Voting in parliament shall be performed by a deputy only in person. A deputy's absence without valid reason from sittings of the chambers and their bodies more than three times, as also the transfer of voting right, shall entail the application to the deputy of the penalties established by law.

3. A deputy of parliament shall not be entitled to be a deputy of another representative body, to engage in entrepreneurial or other paid activity, except teaching, research, and other creative activity, or be the member of a management body or supervisory board of a commercial organization. A violation of this rule shall entail the termination of the deputy's authority. A deputy of parliament is not guaranteed retention of his former job (office) or an equivalent job (office) upon the termination or expiration of his term.

4. A deputy of parliament may not during his term be arrested, brought in for questioning, subjected to measures of administrative punishment imposed in legal form, or arraigned on a criminal charge without the consent of the corresponding chamber, other than in instances of detention at the scene of a crime or the perpetration of felonies.

5. A deputy of parliament may be deprived of his mandate in instances of his tendering his resignation, the implementation of a conviction in respect to him, recognition of the deputy as incapable, or his departure from the republic for permanent residence.

6. The preparation of questions connected with the application to the deputies of measures of punishment and their observance of the requirements of clause 3

of this article and the rules of deputies' ethics and also the deprivation of the deputies of their authority and deputy's immunity shall be entrusted to the Central Election Commission of the Kazakh Republic.

Article 53. Parliament at a joint sitting of the chambers shall:

1) as moved by the president of the Kazakh Republic, make revisions and addenda to the Constitution; adopt constitutional statutes and make revisions and addenda to them;

2) confirm the republic budget and the report of the government and the Accounts Committee on its administration and make changes to the budget;

3) in the instances and in the procedure established by this constitution adopt a decision on the early release or dismissal from office of the president of the Kazakh Republic;

4) by a two-thirds vote of the total number of deputies of each chamber on the initiative of the president delegate to him legislative authority for a period not exceeding one year;

5) conduct a repeat discussion and vote on laws that have evoked the objections of the president of the Kazakh Republic within one month from the time that the objections are forwarded. Failure to observe this timeframe shall signify adoption of the president's objections. If by a two-thirds majority vote of the total number of deputies of each chamber parliament sustains the decision adopted earlier, the president shall sign the law within seven days. If the president's objections are not overridden, the law shall be deemed not to have been adopted. In this case the law shall be considered adopted in the version proposed in the president's objections if each chamber agrees with these objections or if the law has not been considered by both chambers within a month from the day the president's objections were received;

6) consent to the appointment by the president of the prime minister of the Kazakh Republic;

7) consent to the appointment by the president of the Kazakh Republic of the chairman of the National Bank of the Kazakh Republic;

8) receive the report of the prime minister on the government program and approve or reject the program; a program may be rejected for a second time by a two-thirds majority vote of the total number of deputies of each chamber, and this shall signify a vote of no confidence in the government. The absence of such a majority shall signify approval of the government program;

9) by a two-thirds majority vote of the total number of deputies of each chamber on the initiative of no less than one-fifth of the total number of deputies of parliament and in the instances established in this constitution express a vote of no confidence in the government;

10) decide questions of war and peace;

11) adopt, as moved by the president of the Kazakh Republic, a decision on the use of the armed forces of the Kazakh Republic for the fulfillment of international peacekeeping and security commitments;

12) display in accordance with a constitutional statute an initiative concerning the scheduling of a republic referendum;

13) receive annual messages from the Constitutional Court of the Kazakh Republic on the state of constitutional legality in the country;

14) form joint commissions of the chambers; elect to and relieve of office their chairmen; receive reports on the activity of the commissions;

15) exercise other authority entrusted to parliament by this constitution.

Article 54. Parliament in separate sittings of the chambers, by way of the successive consideration of issues first in the Mazhilis and then in the Senate, shall:

1) adopt laws;

2) discuss the republic budget and the account of its administration and changes to the budget and establish and abolish state taxes and fees and charges;

3) establish the procedure of the solution of questions of the administrative-territorial arrangement of the Kazakh Republic;

4) institute official awards, establish honorifics and special titles and military ranks and top diplomatic ranks of the Kazakh Republic, and determine the state symbols of the Kazakh Republic;

5) decide questions of public loans and the Kazakh Republic's rendering of economic and other assistance;

6) promulgate acts on amnesty for citizens;

7) ratify and denounce international treaties of the Kazakh Republic.

Article 55. Pertaining to the exclusive jurisdiction of the Senate are:

1) the election and release from office per a representation of the president of the Kazakh Republic of the chairman and justices of the Constitutional Court, the

chairman of the Supreme Court, chairmen of the chambers, and justices of the Supreme Court of the Kazakh Republic and the administration to them of the oath;

2) the consent to the appointment by the president of the Kazakh Republic of the prosecutor general of the Kazakh Republic;

3) the early termination of the authority of the local representative bodies in accordance with legislation of the Kazakh Republic;

4) the delegation of two deputies to the Supreme Judicial Council;

5) consideration of a question raised by the Mazhilis concerning the dismissal from office of the president of the Kazakh Republic and presentation of its results for consideration by a joint sitting of the chambers.

Article 56. Pertaining to the exclusive jurisdiction of the Mazhilis are:

1) acceptance for consideration and the actual consideration of draft laws of the Kazakh Republic;

2) preparation of proposals on the president's objections to laws adopted by parliament;

3) the election and release from office per a representation of the president of the Kazakh Republic of the chairmen, deputy chairmen, secretary, and members of the Central Election Commission of the Kazakh Republic;

4) the announcement of regular elections of the president of the Kazakh Republic and the scheduling of special elections of the same;

5) the delegation of two deputies to the Justice Qualifications College;

6) the preferral of a charge against the president of the Kazakh Republic of having committed treason.

Article 57. Each chamber of parliament independently, without the participation of the other chamber, shall:

1) appoint to office for a five-year term two members of the Accounts Committee for supervision of the administration of the republic budget;

2) delegate half the members of the commission formed by parliament in the instance specified by clause 1 of Article 47 of the constitution;

3) elect half the members of joint commissions of the chambers;

4) terminate the deputy's authority of deputies of the chambers and also, per a representation of the prosecutor general of the Kazakh Republic, decide questions of deputies of the chambers being stripped of their deputy's immunity;

5) conduct parliamentary hearings on matters within their jurisdiction;

6) be entitled on the initiative of not less than one-third of the total number of their deputies to receive reports of members of the government on questions of their activity and by a two-thirds majority vote of the total number of deputies of the chamber adopt an appeal to the president of the Kazakh Republic on the release from office of a member of the government in the event of his having failed to execute the laws of the Kazakh Republic;

7) form coordinating and working bodies of the chambers;

8) adopt the standing orders of its activity and other decisions on matters connected with the organization and standard regulations of the chambers.

Article 58.1. The chambers shall be headed by their chairmen elected by ballot by the Senate and the Mazhilis from the ranks of their deputies who have a fluent command of the official language by a majority vote of the total number of deputies of the chambers. Candidates for the office of chairmen of the chambers shall be nominated by the deputies of the chambers. Candidates for chairman of the Senate may be nominated by the president of the Kazakh Republic also.

2. The chairmen of the chambers may be recalled from office and also have the right to tender their resignations if a majority of the total number of deputies of the chambers have voted for this.

3. The chairmen of the chambers of parliament shall:

1) convene sittings of the chambers and preside at them;

2) exercise general leadership of the preparation of the questions submitted for consideration by the chambers;

3) present to the chambers the candidates for election to the offices of deputy chairmen of the chambers;

4) ensure compliance with the standing orders in the activity of the chambers;

5) direct the activity of the coordinating bodies of the chambers;

6) sign acts promulgated by the chambers;

7) discharge other obligations entrusted to them by the standing orders of parliament.

4. The chairman of the Mazhilis shall:

1) open sessions of parliament;

2) convene regular joint sittings of the chambers and preside at regular and special joint sittings of the chambers;

3) exercise general leadership of the preparation of questions submitted for consideration by joint sittings of the chambers;

4) coordinate the activity of the joint working bodies of the Senate and the Mazhilis;

5) exercise other authority connected with organization of the work of parliament.

5. On issues within their jurisdiction the chairmen of the chambers shall issue directives.

Article 59.1. A session of parliament shall be held in the form of joint and separate sittings of its chambers.

2. The first session of parliament shall be convened by the president of the Kazakh Republic no later than 30 days following publication of the election results.

3. Regular sessions of parliament shall be conducted once a year, from the first working day of September through the last working day of June.

4. A session of parliament shall be opened and closed at joint sittings of the Senate and the Mazhilis. In the period between sessions of parliament the president of the Kazakh Republic may on his own initiative or as proposed by the chairmen of the chambers or no less than one-third of the total number of deputies of parliament convene a special joint sitting of the chambers. It may consider merely the matters which were the occasion for it being convened.

5. Joint and separate sittings of the chambers shall be conducted provided that no fewer than two-thirds of the total number of deputies of each chamber are present at them.

6. Joint and separate sittings of the chambers shall be open. Closed sessions may be held in the instances specified by the standing orders. The president of the Kazakh Republic, the prime minister and members of the government, the chairman of the National Bank, and the prosecutor general shall be entitled to be present at any sittings and to be heard.

Article 60.1. The chambers shall form standing committees, the number of which shall not exceed seven per chamber.

2. For the solution of questions concerning the joint activity of the chambers the Senate and the Mazhilis shall be entitled on a parity basis to form joint commissions.

3. The committees and commissions shall issue decrees on matters within their jurisdiction.

4. The procedure of the formation, the authority, and the organization of the activity of the committees and commissions shall be determined by law.

Article 61.1. The right of legislative initiative belongs to deputies of parliament, the government, and the Supreme Court of the Kazakh Republic and shall be realized exclusively in the Mazhilis.

2. The president of the Kazakh Republic shall be entitled to determine the priority of the consideration of draft laws and also to submit to parliament a proposal on the consideration of a draft law being declared urgent, this signifying that parliament should consider this draft within a month from the day it was submitted.

3. Parliament shall be entitled to promulgate laws that regulate most important social relations and establish fundamental principles and norms concerning:

1) the legal personality of individuals and legal entities, civil liberties and rights, and the obligations and responsibility of individuals and legal entities;

2) the procedures of ownership and other real rights;

3) the fundamentals of the organization and the activity of state bodies and local government bodies and public and military service;

4) taxation and the establishment and collection of fees and charges and other compulsory payments;

5) the republic budget;

6) questions of judicial administration and judicial procedure;

7) education;

8) the privatization and nationalization of enterprises and their assets;

9) environmental protection;

10) the administrative-territorial arrangement of the republic;

11) the defense and security of the state.

All other relations shall be regulated by legally binding enactments.

4. A bill considered and approved by a majority of votes of the total number of deputies of the Mazhilis shall be passed on for consideration by the Senate, where it shall be discussed within no more than 60 days. A bill that has been rejected on the whole by majority vote of the total number of members of the Senate shall be returned to the Mazhilis. If the latter by a two-thirds majority vote of the total number of its deputies once again approves the bill, it shall be passed on to the Senate for repeat

discussion and a vote. A draft law approved by majority vote of the total number of deputies of the Senate shall become law, while a draft law rejected for a second time may not be resubmitted in the course of the same session.

5. Revisions and addenda to a bill made by majority vote of the total number of deputies of the Senate shall be forwarded to the Mazhilis. If by a majority vote of the total number of its deputies the Mazhilis agrees with the proposed revisions and addenda, the law shall be considered adopted. If, however, the Mazhilis by that same majority vote objects to the observations and addenda expressed by the Senate, the disagreements between the chambers shall be resolved by way of conciliation procedures.

6. Draft laws specifying a reduction in state spending or an increase in state revenue may be submitted only if accompanied by positive findings of the government.

7. In connection with the rejection of a draft law submitted by the government, the prime minister shall be entitled to raise at a joint sitting of the chambers of parliament the question of confidence in the government. The vote on this matter shall be held no sooner than 48 hours following the moment when the confidence issue was presented. If the proposal concerning a vote of confidence fails to muster the requisite number of votes established by this Constitution, the draft law shall be considered adopted without a vote. But the government may not avail itself of this right more than twice a year.

Article 62.1. Parliament shall adopt legislative instruments in the form of laws of the Kazakh Republic, decrees of parliament, and decrees of the Senate and the Mazhilis binding on the territory of the whole country.

2. Laws of the Kazakh Republic shall take effect after having been signed by the president of the Kazakh Republic.

3. Revisions and addenda to the Constitution shall be made by a majority of no less than three-fourths of the votes of the total number of deputies of each chamber.

4. Constitutional statutes shall be adopted on matters specified by the Constitution by a majority of no less than two-thirds of the votes of the total number of deputies of each chamber.

5. Legislative instruments of parliament and its chambers shall be adopted by majority vote of the total number of deputies of the chambers, unless otherwise specified by the Constitution.

6. At least two readings on questions of revisions and addenda to the Constitution and the adoption of constitutional statutes or revisions to them are obligatory.

7. Laws of the Kazakh Republic and decrees of parliament and its chambers must not contravene the Constitution. Decrees of parliament and its chambers must not contravene the laws.

8. The procedure of the drafting, presentation, discussion, implementation, and publication of legislative and other normative legal documents of the Kazakh Republic shall be regulated by a special law and the standing orders of parliament and its chambers.

Article 63.1. The president of the Kazakh Republic may announce the dissolution of parliament following official consultations with the prime minister and the chairmen of the chambers of parliament.

2. Parliament may also be terminated early in the procedure established by clause 1 of this article if parliament expresses a vote of no confidence in the government.

3. Parliament may not be dissolved in the period of a state of emergency or martial law, in the last six months of the presidential term, or in a period when parliament is deciding the question of the early release or dismissal of the president from office and also within one year following a previous dissolution.

Section V. The Government

Article 64.1. The government shall exercise the executive power of the Kazakh Republic and head the system of executive authorities and exercise leadership of their activity.

2. The government shall in all its activity be responsible to the president of the Kazakh Republic and accountable to parliament in the instances specified by clause 7 of Article 53 and clause 6 of Article 57.

3. The competence and procedure of the organization and activity of the government shall be determined by constitutional statute.

Article 65.1. The government shall be formed by the president of the Kazakh Republic in the procedure specified by this Constitution.

2. Proposals concerning the structure and composition of the government shall be submitted to the president of the Kazakh Republic by the prime minister within 10 days following his appointment.

3. Members of the government shall take an oath to the people and the president of Kazakhstan.

Article 66. The government shall:

1) draft the guidelines of the socioeconomic policy of the state and its defense capability and security and

the safeguarding of public order and organize their implementation;

2) draft and present to parliament the republic budget and the report on its administration and provide for administration of the budget;

3) submit to the Mazhilis draft laws and provide for execution of the laws;

4) organize the administration of state property;

5) formulate measures for the pursuit of the foreign policy of the Kazakh Republic;

6) direct the activity of ministries, state committees, and other local and central executive authorities;

7) revoke or suspend fully or in part acts of ministries, state committees, and other central and local executive authorities of the Kazakh Republic;

8) appoint to and release from office the leaders of central executive authorities which are not a part of the government;

9) appoint for a five-year term four members of the Accounts Committee for supervision of the administration of the republic budget;

10) perform other functions entrusted to it by this Constitution, the laws, and acts of the president.

Article 67. The prime minister of the Kazakh Republic shall:

1) organize and direct the activity of the government and be personally responsible for its work;

2) within a month following his appointment present to parliament an account of the government program, and in the event of it being rejected, present a second account of the program within two months;

3) sign government decrees;

4) report to the president on the guidelines of government activity;

5) perform other functions connected with the organization and leadership of the activity of the government.

Article 68.1. Members of the government shall be collectively responsible for the decisions adopted by the government, even if they have not voted for their adoption, but have not stated their immediate disagreement.

2. Members of the government shall not be entitled to be deputies of a representative body, hold other office in state authorities and public associations, engage in entrepreneurial activity, or be members of the management body or supervisory board of a commercial organization.

3. During his term of office a member of the government may not be arrested, brought in for questioning, subjected to measures of administrative punishment imposed in legal form, or arraigned on a criminal charge without the consent of the government, except for instances of detention at the scene of a crime or the perpetration of felonies.

Article 69.1. The Government of the Kazakh Republic shall on matters within its jurisdiction issue decrees binding throughout Kazakhstan.

2. The prime minister of the Kazakh Republic shall issue directives binding throughout the Kazakh Republic.

3. Decrees of the government and directives of the prime minister must not contravene the Constitution, legislative instruments, or edicts and directives of the president of the Kazakh Republic.

Article 70.1. The government shall relinquish office to the newly elected president of the Kazakh Republic.

2. The government and any member of it shall be entitled to announce to the president of the Kazakh Republic their resignation if they deem impossible the continued performance of the functions entrusted to them.

3. The government shall announce to the president of the Kazakh Republic its resignation in instances of parliament's expression of no confidence in the government.

4. The president of the Kazakh Republic shall within 10 days' time consider whether to accept or reject the resignation.

5. Acceptance of the resignation shall signify an end to the term of office of the government or its corresponding member. Acceptance of the resignation of the prime minister shall signify an end to the term in office of the entire government.

6. If the resignation of the government or a member of it is rejected, the president shall instruct them to continue to discharge their obligations. If the resignation of the government announced in connection with parliament's expression of no confidence in it is rejected, the president shall have the right to dissolve parliament.

7. The president of the Kazakh Republic shall be entitled on his own initiative to adopt a decision on an end to the term of office of the government and any member thereof. An end to the term of office of the prime minister shall signify an end to the term of the entire government.

Section VI. Justice

Article 71.1. Justice in the Kazakh Republic shall be administered only by the court.

2. Judicial authority shall be exercised by means of constitutional, civil, administrative, criminal, and other forms of judicial procedure established by law.

3. The Constitutional Court of the Kazakh Republic, the Supreme Court of the Kazakh Republic, and local courts of the Kazakh Republic established by law are courts of the Kazakh Republic.

4. The judicial system of the Kazakh Republic is established by the Constitution of Kazakhstan and a constitutional statute. The institution of special and emergency courts under any name is prohibited.

Article 72.1. Judicial authority shall be exercised on behalf of the Kazakh Republic and shall have as its purpose the guaranteed execution of the Constitution, the laws, other normative legal documents, and international treaties of the Kazakh Republic and the protection of the rights, liberties, and legitimate interests of the citizens and their organizations.

2. Judicial authority shall extend to all cases and disputes arising on the basis of this Constitution, laws, other normative legal documents, and international treaties of the Kazakh Republic.

3. Sentences, judgments, and other decisions of the courts shall be binding throughout the Kazakh Republic.

Article 73.1. Judges shall be subordinate only to the constitution and the law.

2. Any interference in the activity of the court in respect to the administration of justice is impermissible and shall entail liability according to the law. Judges are not accountable in respect to specific cases.

3. A judge must be guided in application of the law by the principles hereunder:

1) a person is considered innocent of the perpetration of a crime until his guilt is recognized by a sentence of the court that has become res judicata;

2) no one may be subjected twice to criminal or administrative liability for one and the same offense;

3) the jurisdiction specified for a party by law may not be changed for him without his consent;

4) in court everyone has the right to be heard;

5) laws establishing or increasing liability, entrusting new obligations to the citizens, or causing a deterioration in their position are not retroactive. If after having committed an offense the liability for it is revoked or mitigated by law, the new law shall apply;

6) a defendant shall not be required to prove his innocence;

7) no one shall be required to testify against himself, his wife (husband), or close relatives, the list of which shall be determined by law. Members of the clergy shall not be required to bear witness against those who have confided their confessions to them;

8) any doubts as to a party's innocence shall be interpreted in favor of the defendant;

9) evidence obtained illegally has no legal force. No one may be convicted merely on the basis of his own confession;

10) the application of criminal law by analogy is not permitted.

4. The principles of justice established by the Constitution shall be common and indivisible for all courts and judges in the Kazakh Republic.

Article 74.1. Judges are not entitled to apply laws and other normative legal documents which contravene the Constitution of the Kazakh Republic. If a court discerns that an applicable law or other normative legal document contravenes the Constitution, it shall suspend proceedings and apply to the Constitutional Court of the Kazakh Republic with a representation for this law to be deemed unconstitutional.

2. Acts or individual provisions thereof deemed unconstitutional shall lapse; international treaties of the Kazakh Republic not corresponding to the Constitution are not to be implemented or applied.

3. Objections of the president of the Kazakh Republic, which are overridden by a two-thirds vote of the total number of members of the Constitutional Court, may be made to a ruling of the Constitutional Court as a whole or to a part of it.

4. Rulings of the Constitutional Court shall take effect the day they are adopted and shall be binding throughout the Kazakh Republic, final, and not subject to appeal.

Article 75.1. Courts shall consist of permanent judges, whose independence is protected by the constitution and the law. A judge's authority may be terminated or suspended solely on grounds established by law.

2. In the course of his term a judge may not be arrested, brought in for questioning, subjected to measures of administrative punishment imposed in legal form, or arraigned on a criminal charge without the consent of the Supreme Judicial Council of the republic, except in

instances of apprehension at the scene of a crime or the perpetration of felonies.

3. Citizens of the Kazakh Republic who have attained to the age of 25 and who have higher legal education and a length of service in the legal profession of not less than two years and who have passed the qualifying examination may be judges. The law may establish additional demands on judges of courts of the Kazakh Republic.

4. The office of judge is incompatible with a deputy's mandate, the tenure of office in other state bodies, entrepreneurial or other paid activity, other than teaching, research, or other creative activity, and membership of a management body or supervisory board of a commercial enterprise.

Article 76. The courts shall be financed and the judges provided with housing from republic budget funds, and these should ensure the possibility of the full and independent administration of justice.

Article 77. The Constitutional Court of the Kazakh Republic shall ensure judicial defense of the Constitution of the Kazakh Republic.

Article 78. The Supreme Court of the Kazakh Republic is the highest judicial body for civil, criminal, administrative, and other cases subject to the jurisdiction of general courts, exercises in the procedural forms specified by law supervision of their activity, and provides interpretations on questions of judicial practice.

Article 79.1. Justices of the Constitutional Court and the Supreme Court of the Kazakh Republic shall be elected by the Senate per a representation of the president of the Kazakh Republic based on a recommendation of the Supreme Judicial Council of the republic.

2. Judges of oblast courts and courts of cities of republic significance and the capital shall be appointed to office by the president of the Kazakh Republic on the recommendations of the Supreme Judicial Council of the republic.

3. Judges of other courts of the Kazakh Republic shall be appointed to office by the president of the Kazakh Republic per a representation of the minister of justice based on a recommendation of the Justice Qualification College.

4. The Supreme Judicial Council shall be headed by the president of the Kazakh Republic and shall consist of the chairman of the Supreme Court, the prosecutor general, the minister of justice, deputies of the Senate, justices, and other persons appointed by the president of the Kazakh Republic. The Justice Qualification College is an autonomous, independent institution formed from deputies of the Mazhilis, justices, prosecuting attorneys, teachers of law and legal scholars, and employees of the justice authorities.

5. The status, procedure of formation, and organization of the work of the Supreme Judicial Council and the Justice Qualification College shall be determined by law.

Article 80.1. The Public Prosecutor's Office exercises supreme oversight over the precise and uniform application of the laws, edicts of the president of the republic, and other normative legal documents on the territory of the Kazakh Republic and over the legality of operational-search activity, preliminary inquiry and investigation, and administrative and executive proceedings and adopts measures to uncover and eliminate all violations of legality and the independence of the courts and also lodges appeals against laws and other normative legal documents contravening the constitution and laws of the Kazakh Republic. The Public Prosecutor's Office represents the interests of the state in court.

2. The Public Prosecutor's Office of the Kazakh Republic constitutes a single centralized system, with the subordination of the local prosecuting attorneys to their higher counterparts and the prosecutor general of the Kazakh Republic. It exercises its authority independently of other state bodies and officials and is accountable only to the president of the Kazakh Republic.

3. The prosecutor general of the Kazakh Republic is appointed to office and relieved of office by the president of the Kazakh Republic. The prosecutor general is appointed with the consent of the Senate. The term of the prosecutor general is five years. Deputy prosecutors general are appointed to office and relieved of office by the president per a representation of the prosecutor general. Other prosecuting attorneys are appointed to office and relieved of office by the prosecutor general of the Kazakh Republic.

4. Within his term in office the prosecutor general may not be arrested, brought in for questioning, subjected to measures of administrative punishment imposed in legal form, or arraigned on a criminal charge without the consent of the Senate, except for instances of apprehension at the scene of a crime or the perpetration of felonies.

5. The competence, organization, and procedure of the activity of the Public Prosecutor's Office of the Kazakh Republic shall be determined by law.

Article 81.1. Criminal cases shall be investigated by special authorities and separately from the court and the Public Prosecutor's Office.

2. The powers, organization, and procedure of the activity of the investigating authorities and other matters of operational-search activity in the Kazakh Republic are regulated by law.

Section VII. Local State Administration and Local Government

Article 82. Local state administration is exercised by local representative and executive authorities, which are responsible for the state of affairs on the corresponding territory.

Article 83.1. The local representative authorities—the councils—express the will of the population of the corresponding administrative-territorial units and determine with regard to all- state interests the measures necessary for its realization and monitor their implementation.

2. The councils are elected by the population on the basis of general, equal, and direct suffrage by ballot for a four-year term.

3. A citizen of the Kazakh Republic who has attained to the age of 20 may be elected a deputy of a council. A citizen of the Kazakh Republic may be a deputy only of one council.

4. Pertaining to the jurisdiction of the councils are:

1) the confirmation of plans and economic and social programs of the development of the territory and the local budget and the accounts of their execution;

2) the solution of questions of the local administrative-territorial arrangement within their jurisdiction;

3) consideration of the accounts of the leaders of the local executive authorities on matters referred by law to the council's jurisdiction;

4) the formation of standing commissions and other working bodies of the council, the reception of accounts of their activity, and the solution of other questions connected with the organization of the work of the council;

5) the exercise in accordance with legislation of the Kazakh Republic of other authority pertaining to the safeguarding of the rights and legitimate interests of the citizens.

5. The term of the council shall be ended early by the Senate on the grounds and in the procedure established by law and also in the event of it adopting a decision to dissolve itself.

6. The competence of the councils, the procedure of their organization and activity, and the legal position of their deputies are established by law.

Article 84.1. The local executive authorities are part of the unified system of the republic's executive authorities and provide for the pursuit of the all-state policy of the executive in combination with the interests and requirements of the development of the corresponding territory.

2. Pertaining to the jurisdiction of the local executive authorities are:

1) the elaboration of draft plans, economic and social programs of the development of the territory, and the local budget and support for their execution;

2) the administration of municipal property;

3) the appointment to and release from office of the leaders of local executive authorities and the solution of other questions connected with the organization of the work of the local executive authorities;

4) the exercise in the interests of local state administration of other powers entrusted to the local executive authorities by legislation of the Kazakh Republic.

3. The local executive authority shall be headed by the hakim of the corresponding administrative-territorial unit, who is a representative of the president and the government of the Kazakh Republic.

4. The hakim of oblasts, cities of republic significance, and the capital shall be appointed to office and released from office by the president of the Kazakh Republic, the hakim of other administrative- territorial units shall be appointed by their superior hakim.

5. The council shall be entitled by two-thirds vote of the total number of its deputies to express no confidence in the hakim and to raise the question of his being relieved of office before the president of the Kazakh Republic or a superior hakim respectively. The term of the hakim of oblasts, cities of republic significance, and the capital shall end when a newly elected president of the republic assumes office.

6. The competence of the local executive authorities and the organization and procedure of their activity shall be established by law.

Article 85.1. The councils shall adopt on matters within their jurisdiction decisions, and the hakim, decisions and directives, binding on the territory of the corresponding administrative- territorial unit.

2. Draft decisions of the councils providing for a reduction in local budget revenue or an increase in local budgetary expenditures may be submitted for consideration only if accompanied by positive findings of the hakim.

3. Decisions of the councils not conforming to the Constitution and the laws of the Kazakh Republic may be revoked in legal form.

4. Decisions and directives of the hakim may be revoked by the president and the government of the Kazakh Republic or the superior hakim respectively and also in legal form.

Article 86.1. Local government providing for the population's independent solution of questions of local significance is recognized in the Kazakh Republic.

2. Local government shall be exercised by the population directly via elections and also via elective and other local government authorities in rural and urban local communities encompassing territories on which groups of the population exhibit compact residence.

3. The procedure of the organization and activity of the local government authorities shall be determined by the citizens themselves within the limits established by law.

4. The independence of the local government authorities within the limits of their authority established by law is guaranteed.

Section VIII. Final and Transitional Provisions

Article 87.1. The Constitution of the Kazakh Republic, adopted at a republic referendum, shall take effect the day the referendum results are officially published.

2. The Constitution of the Kazakh Republic adopted earlier shall terminate simultaneously.

3. The day that the Constitution is adopted at a republic referendum shall be declared a public holiday—Kazakh Republic Constitution Day.

Article 88.1. Amendments to the Constitution of the Kazakh Republic may be made only by a republic referendum conducted in accordance with a decision of the president adopted by him on his own initiative or a proposal of parliament or the government. But draft revisions and addenda to the Constitution shall not be put to a republic referendum if the president decides to pass it on for consideration by parliament. Parliament's decision shall in this case be adopted in the procedure established by this Constitution.

2. The unitary character and territorial integrity of the Kazakh Republic and the form of its rule established by this Constitution may not be changed.

Article 89.1. Constitutional statutes must be adopted within a year after the Constitution has taken effect. If the statutes cited in the Constitution are constitutional or if acts with the force of such had been adopted by the time it took effect, they shall be brought into line with the Constitution and considered constitutional statutes of the Kazakh Republic.

2. Other statutes cited in the Constitution must be adopted in the procedure and the timeframe determined by parliament, but no later than two years after it has taken effect.

3. The force of laws of the Kazakh Republic shall be imparted to edicts of the president of the republic issued within the timeframe of his exercise of supplementary authority and having the force of law, and they may be revised, supplemented, or revoked only in the procedure specified for a revision, addendum, or revocation of laws of the Kazakh Republic. Edicts of the president of the republic issued within the same timeframe on matters specified by clauses 12- 15, 18, and 20 of Article 64 of the Constitution of the Kazakh Republic shall not be subject to confirmation by the parliament of the Kazakh Republic.

Article 90. Legislation of the Kazakh Republic in force at the time the Constitution takes effect shall apply where it does not contravene the latter and must be brought into line with it within two years following the adoption of the Constitution.

Article 91. For the realization of Article 7 of the Constitution the government and the local representative and executive authorities are required to create all the necessary organizational and material and technical conditions for unrestricted and gratis mastery of the official language by all citizens of the Kazakh Republic in accordance with a special law.

Article 92.1. The president of the Republic of Kazakhstan, elected in accordance with legislation of the Republic of Kazakhstan in force at the time this Constitution takes effect, shall assume the authority of president of the Kazakh Republic which it establishes and exercise it in the timeframe established by the decision adopted at the republic referendum on 29 April 1995.

2. The vice president of the Republic of Kazakhstan, elected in accordance with legislation of the Republic of Kazakhstan in force at the time this Constitution takes effect, shall retain his authority until the period for which he was elected expires.

Article 93. One-half of the deputies of the first Senate shall be elected for a four-year term, the other half of the deputies, for a two-year term.

Article 94. The Cabinet of Ministers of the Republic of Kazakhstan shall of the day that this Constitution takes effect assume the rights, obligations, and responsibility of the Government of the Kazakh Republic established by this Constitution.

Article 95.1. The justice and investigatory authorities specified by this Constitution shall be formed in the procedure and in the timeframe specified by the corresponding statute.

2. Judges of all courts of the republic shall retain their authority. Judge vacancies shall be filled in the procedure established by this Constitution.

Japanese Managing Ferrous Alloys Plants

954F2721A Almaty NOVOYE POKOLENIYE in Russian Jul 95 No 25, p 10

[Article by Oleg Muranov: "Will the Japanese Succeed in Saving the Most Backward Plant in the World?"]

[FBIS Translated Text] Kazakhstan is the largest producer of ferrochromium in the world. Two unique plants were built in this country, which supply this product to the foreign market, where they compete successfully with Western firms. NOVOYE POKOLENIYE recently wrote about one of them—the Yermakovskiy ferroalloys plant [YeZF] in the city of Aksu.

A catastrophic situation has arisen there in recent years, and even Kazakhstani specialists who worked at the plant for dozens of years, and whom it would be difficult to suspect of a lack of patriotism, approved a new government project to save the YeZF. It was transferred to the financial management of the Japan Chromium Corporation. As became known later, a second ferroalloys giant of the republic—the Aktyubinsk plant [AZF]—ended up in the same package along with it. It must be said that until recently things were not as bad there as at the YeZF. In any case, that is what local executives and mid-level managers believed. It is probable that such an opinion arose because there was not as monstrous a wage indebtedness at the AZF as at Yermakovka. By the middle of June the workers here had not received money even for May (compare—wages have not been received in Aksu since January). The AZF produces only highly carbonic ferrochromium. However, previously a so-called complex modifier was a proprietary product of the plant—a ferrosilicon alloy of silicon, magnesium, and several other rare- earth metals. It is added in the manufacture of high-quality cast iron. But the price policy of its Ukrainian partners compelled the plant to abandon production of the proprietary product—suppliers from Donetsk Oblast inflated the prices for magnesium so much that there was nothing else for the AZF to do than switch to products whose components are supplied basically only by Russia. The story with the complex modifier reflected like a mirror the tragedy of our entire metallurgical industry. Incidentally, this story makes it possible to understand many of what are at first glance unclear aspects and reasons for the latest radical initiatives of the managers of the branch. The fact is that the shop for the production of the complex modifier was....the only one in the entire former Union. It was intended for the entire Union motor vehicle and tractor industry and enterprises manufacturing agricultural equipment. Supplying this monopolist shop, naturally, was also conducted by the entire enormous country. The planning-regulating industrial machine determined everything—prices, sales regions, volume of production, and implementation. With its sudden collapse, the Union mechanism buried a great deal that could exist only within its framework. Absolute monopoly on one-sixth of the earth did not help the AZF preserve the unique shop—under market conditions it is not enough to be original, it is also necessary to be somewhat commonplace and obstinate and to like to get the better of your competitors. Producing up to 339,000 tonnes of ferroalloys per year in the best of times, the plant was forced gradually to abandon the output, for example, of medium carbonic ferrochromium and ferrosilicon and switch to ferrochromium only. Up to 40 percent of the cost of electroferroalloys is the cost of electric power, and here it all comes from Russia. With the collapse of the country, the price for it increased each month; therefore, it was decided to go over to marketable ferroalloys, whose output here is continuously increasing. Nevertheless, the AZF, together with the Don ore mining and processing group of enterprises and the YeZF, was transferred to foreign management.... This fact itself cannot help but raise questions and negative emotions. What is more, the opinion is being actively expressed that the branch has been turned over to the complete control of a foreign "octopus," which, they say, will suck it dry and leave the republic with nothing. In particular, Yuriy Mukhin, who was recently dismissed from the position of director of the YeZF, has become the chief propagandist and agitator of these ideas. His statements and deeply emotional patriotism have found a response in many people's hearts. Concerning the subject of the situation at the Aktyubinsk plant, it is also possible to ask the perplexing question: Why give it to the Japanese if the situation here is not that deplorable?

The results of our governmental experiment, of course, will become apparent with time. But it seems that the opponents of the idea of turning over the plants to foreign management overlook the main point (some from lack of understanding and some intentionally)—the branch has been incurably sick for a long time. It held out in Soviet times only owing to the centralized life support system, which will never exist again. By virtue of its being cut off, the enterprises were simply dying, and our native doctors-businessmen still do not possess the skill of economic reanimation, but what is most basic is that they do not possess the principal medicine—the necessary amount of money....

They also forget the fact that no one intends to close down the plants, or carry them off and evade taxes and appropriate payments to the treasury. If in the course of five years the management of Japan Chromium Corporation, or some other foreign firm, allows the slightest breach of the agreement with the government, the latter has the right to annul everything. After all, as before, the enterprises belong to the state!

As for the AZF, here is the opinion of Mr. Kato, who heads a group of experts of the Japanese firm Pacific Metal: "In the technical respect, of the plants producing ferroalloys, AZF is the worst in the world." I will add that Pacific Metal is a well-known company that conducts technical reequipping and control in ferroalloy plants around the world. But, having been there, it is not difficult to surmise that AZF is simply a backward enterprise. For example, practically no computers are used here. This is a large metallurgical enterprise at the end of the 20th century.... The plant has a debt of about $45 million. There is practically no working capital. For this the Japan Chromium Corporation must still find about $16 million. Half of this sum has already been put at the disposal of the enterprise. Moreover, literally the very day after the arrival of the new management.

It is very difficult now to talk about the reconstruction of the AZF, although Pacific Metal is supposed to issue its proposals on this question within several months. But today, the Japanese specialists believe, it is necessary to use the existing potential to the maximum, although we are talking about an enterprise that was built as far back as 1943, many of whose furnaces have operated one and a half to two operating-life terms. The immediate task of the new managers for the present is to introduce elementary order and inculcate a normal procedure of work rhythm in the shops, using electric power and raw materials, as is done everywhere in the world, but for some reason not in our country.

As for the involvement in the project of all of the main republic branch enterprises—AEF [Aktyubinsk electroferroalloys], YeEF [Yermakovskiy electroferroalloys], and the Don GOK [ore mining and processing group of enterprises]—this cherished idea has rambled around in the minds of the managers of the branch during the last three years at a minimum. But one regrettable truth has restrained it—a poor man cannot make a poor man richer. The debts of all three of the chromium giants were growing, and it did not make any sense to combine three big problems and create one very big problem. Therefore, the very first condition of the government that was set for the foreign management firm was the settlement of debts and the "infusion" of working capital, which the Japan Chromium Corporation in fact has done in an amount already above $235 million. The "patriots" are also trying somehow not to mention this fact.

Undoubtedly, Harao Suzuki is counting on not only recovering the invested money, but also on earning some kind of profit in Kazakhstan, which is why he is a businessman. But this is possible only by setting up efficient modern and competitive production, reliable communications, and a substantial technical equipment capability at the plants and mines. It is certainly difficult to say that all this is not necessary to the Kazakhstani enterprises and to the republic itself.

Azerbaijan

3 Jul Attack on Aliyev Motorcade Analyzed

954F2765A Moscow ARGUMENTY I FAKTY in Russian Jul 95 No 28, p 9

[Report by Ilgam Mamedov under the rubric "Terror": "Assassination, Baku-Style"]

[FBIS Translated Text] We have received information from Azerbaijan that on 3 July in Baku unidentified persons sprayed the presidential cortege with large-caliber bullets from a machine gun. Several bodyguards were killed.

Azerbaijani President Geydar Aliyev himself was not in the car. Instead, the passenger riding under full presidential security protection was his son Elhan, vice president of the state oil corporation. He was brought home in a state of shock and has not been seen publicly since.

Official authorities in Azerbaijan are neither confirming nor denying this information; however, several days after this President Aliyev appeared on Azerbaijani television, where he made a strange statement: "If I am killed, let them know that I have a son, and my son also has a son growing up."

Informed observers maintain that this statement contains a hint at the new draft of the constitution that is being worked on in the presidential administration. It envisages establishing a hereditary succession of power in Azerbaijan. As to the assassination attempt, it is being linked with the flare up of tensions inside Azerbaijan's ruling clan, in particular, between Parliament Speaker Rasul Guliyev and the president himself. The Aliyev family is consistently pushing him out of the sphere considered his "home ground"—production and sale of petroleum products.

Latvia

*Prime Minister on Republic's Financial Crisis

954K0629A Riga LAUKU AVIZE in Latvian
9 Jun 95 p 5

[Interview with Maris Gailis, Prime Minister, and Rolands Tjarvis, Press Secretary to the Prime Minister, by Voldemars Krustins, Chief Editor, and his assistants, Mara Igaune, Ingus Gailums, Viesturs Serdans and Alfreds Kundzins: "Still no Security in Financial Matters"]

[FBIS Translated Text] The monthly conversation occurred on Monday in the editorial office of "Lauku Avize" with Maris Gailis, Prime Minister, and Rolands Tjarvis, Press Secretary to the Prime Minister. Participating from the editorial office were Voldemars Krustins, Chief Editor, and his assistants, Mara Igaune, Ingus Gailums, Viesturs Serdans and Alfreds Kundzins. The conversation started with the current and unpleasant "Baltija" bank matter.

[M. Gailis] Just now, the auditing firm has finished the internal audit of this bank. The situation is sad. It has been revealed that even the inventory of "Baltija" has been mortgaged, starting from the tables and buildings, and extending to the intellectual property. The credit portion of over 80 million lats has been turned over to a certain Russian bank. It has been learned that Koemecs even mortgaged part of "Latvenergo" in "Baltija". But such an action is still not a criminal offence. However, there are suspicions that money has been taken out of the bank, but has not been deposited into the account of "Latvenergo". At present, we are rushing along three very important bills: on default and bankruptcy of a bank; on the founding of a bank's regulatory agency and insurance of deposits; and, third, a law on credit institutions. It should not be so that the orders given by the Bank of Latvia are only wishful thinking. And, while they are not being carried out at this time, no sanctions are being levied. However, this is the fault of the Bank of Latvia's leadership, because, during this two year period, the law, which was already worked out a long time ago, has not been submitted to the Saeima.

Speaking about deposits, which the public is most upset about, we have come upon the concept of a bank insurance fund. This fund should be established very soon to provide for the repayment of money deposited in "Baltija", but, naturally, up to a certain amount. At this time, I do not want to say how many lats that could be. The discussion was for about 500 lats. Since the average amount deposited in "Baltija" bank accounts is around 400 lats, then, by repayment for up to five hundred, 82 percent of depositors would receive their money back.

[V. Krustins] And they rest won't receive anything?

[M. Gailis] The rest will receive 500 lats and the guarantee that the rest of the money will be repaid later. We have guaranteed that we will repay all deposit accounts. Within a few months time, the opportunity should be created for those, who are in serious need of money, to receive a repayment of up to 500 lats. We would like to go even further, and, using this new system of 500 lats in a similar manner, also repay the depositors who have sustained loses in other banks. The new law on default and bankruptcy by a bank will change the bankruptcy procedure, allowing collected assets, collected credits, and sold bank properties to be used, while giving priority to satisfying the accounts of depositors. The present bankruptcy procedure does just the opposite—the state is the first one to receive anything, then the other creditors, while the depositor is the very last one in line. His chances of receiving anything are almost nil. If depositors' accounts of up to 500 lats are covered, then the total amount in other banks, in comparison with "Baltija", is not that large. If we can pick the dog up, then why not take its tail along? We have made guarantees for "Baltija", but have still not promised anything for the others, and that should be added on.

[V. Krustins] Then, we would have to wait for at least three months, in order to receive up to 500 lats, and those, who have more, should not expected it?

[M. Gailis] You can wait, and you will probably receive. How long, I cannot say specifically, at this time. If we are talking about checking accounts, then that is a different matter. We should unfreeze those even sooner. They need monetary funding, and this is also being worked on. Individual depositors can wait, excepting those who have up to 500 lats. That is why we must create this system very quickly, and a few months is considered to be very quickly for such matters. We should start settling matters with people as early as August.

[V. Krustins] Carefully following along with what the honorable Mr. Klauss has disclosed and stated, it could be said that he is speaking more as a member of the burial department than as resuscitator.

[M. Gailis] That is true.

[V. Krustins] But, if he is a member of the burial department, then depositors should not be optimistic. No one and no party will have any objection against the 500 lats, because the elections are ahead and the "five hundreders" should not be teased. Those, who have more,—from a purely socialistic viewpoint—can remain empty handed, in the end. These three months should be considered as a period of uncertain hopes, in which the current government is at least making promises. The next government will probably not pay anything, because doubts have already been expressed from the various party sides.

[M. Gailis] I would suggest that voters vote for the appropriate parties.

[V. Krustins] There are already those who are saying that payments of up to 50 lats should be made, and no more. There are people with 50, 500 and even 5,000 lats. And everyone has his own thoughts, opinions and needs. With 500 lats, no one will save Latvia's entrepreneur. It is even ridiculous to talk about that.

[M. Gailis] "Baltija" owes its depositors 120 million, and we cannot pay out such an amount in three months. Therefore, the matter must be postponed for a short period.

[V. Krustins] Recently, the press has been relentlessly describing and showing a broken "Baltija" bank. And that should be interpreted as an indication that the money will never be returned. At the same time, another bank has promised to open 20 branches in Latvia. Another conclusion is that—everything revolves around Mr. Repse. Naturally, he is untouchable. Europe has forbidden touching him, and that is very clearly the case. Otherwise, it would be bad for Latvia's prestige. While other presidents can be removed, that is not the case for the Bank of Latvia. But is it really true, that the president of the Bank of Latvia is the only person in the bank who has any power?! Where is the council and the board? Why isn't Saeima, and the government asking for this council to be replaced? Now that the people's money has floated away, the Bank of Latvia is still keeping a stand based on a lack of control, or on silence. But no one is submitting his resignation, and, so far as we know, no one has been reprimanded. And we should not be creating a cult following for any specific person.

[M. Gailis] I feel that we must express our lack of confidence in Rimsevics, who, according to the division of duties, was responsible for auditing the bank's activities. We are taking advantage of the fact that the third reading of the changes to the law on the Bank of Latvia are in the Saeima, and the proposal will be as follows: the government appoints *the president of the Bank of Latvia and three council members. The president of the Bank of Latvia appoints three council members and his deputy.* There should also be a procedure for impeaching the bank president. If 51 deputies are in favor of this, then it would be sufficiently important for the Saeima to adopt the appropriate decision. Impeachment can be initiated, not by the government, but by one third of the Saeima deputies. But, in my opinion, there would be no reason to impeach President Repse. I am also very unhappy with the excitement being stirred up by the press concerning this problem, because that destroys confidence, both inside and outside, in Latvia and the banking system.

[V. Krustins] We also believe that excitement should not be stirred up in the wrong place, and yet, depositors want to know something specific.

[M. Gailis] I can say specifically that they will not receive their deposits back tomorrow, but in the next few months, to a limited extent, everyone will be able to receive their deposits from the "Baltija" bank. The security of all of the money is guaranteed by the government's word. A mechanism and sources of how to fulfil this promise must be found. And, that is in our hands. A mechanism and sources must be found in order to provide repayments. And maybe this will not have to be done in full,—if people realize that the bank is operational, they will not pull out their money.

[I. Gailums] Will the government also promise to pay interest percentages on deposits, if the people do not withdraw their funds?

[M. Gailis] We have discussed this, but I don't want to make any promises. This could be on the level of the inflation rate.

[V. Krustins] A second question, which has attracted people's attention, judging from the letters, is the Ministry of Agriculture's proposal to create 520 administrative or worker positions in rural districts.

[M. Gailis] Saturday, we will review the bill on budgetary changes and that only contains a mention of an administrative position and "reduction" of expenses.

[I. Gailums] The number of administrators in the center is being reduced, and a coordinator will be assigned to each rural district, who will perform registration and some similar tasks.

[M. Gailis] Obviously, the present administrative and coordination system is not sufficient. One division of the agricultural support function is being turned over to self-financing. At present, the budget supplies financing for seeds, veterinary services. Functions must be carefully reviewed, so that they will not be poorly conceived. The value of statistics should not be underestimated. A lack of correct statistics has led to the adoption of poorly conceived resolutions, already starting from the time of Minister Gegeris, when a famine was predicted. We were all running around the world, gathering humanitarian aid, buying up grain and fuel oil.

[V. Krustins] Unfortunately, such a coordinator's utility in the future has no precedence. The basic hardships of management are economic, and the administrators' situation will not be affected, more or less. Furthermore—as many coordinators as a rural district needs, that many they should be able to support for themselves. You see, there is a lack of funds for subsidies, but not for administrators. And in the end, after something gets said, it should be shown.

[A. Kundzins] As of the first of June, the resolution on the use of cash registers in all selling areas takes effect, which has also caused dissatisfaction among sellers, because the possibilities for everyone to obtain such equipment have not been provided.

[M. Gailis] Cash registers in marketplaces are only necessary for those who are selling imported and manufactured goods. Those who are selling their own produce—handcrafts, agricultural goods (meats, vegetables, cheeses, milk)—, do not need cash registers. The introduction of cash registers is aimed against those, who are dealing with smuggled goods and do not pay a sales tax. I heard that the rag sellers in Jelgava even blocked the street and did not allow farmers into the market, who were coming to sell their produce. Naturally, farmers are not selling tetrapacks of juice. And, if you want to sell these juices, then, please, go inside a small hut, where you can have such a cash register.

I feel that street selling of manufactured goods should be prohibited. We have already completed the first phase, and must switch to civilized selling practices. What has already been developed can also support a kiosk or small store.

[V. Krustins] Retiree T. Mednis from Aizkraukle wrote to us, asking you: "Retirees have been very upset about the report that their monthly support (pension) payments will be routed to commercial banks. Is it true that the retirees are being thrown into the flames of the financial crash as a last hope of salvation?"

[M. Gailis] The post office was the only means for delivering pensions. Considering that there was a lack of competition, as well as other subjective and objective problems, the quality of pension delivery declined sharply. For various reasons, pensions were not delivered in 10 to 20 percent of cases. That is why, in 1992, a resolution was adopted turning this process over to a private corporation. These carriers, at the same time, assumed the public service functions, raising quality and lowering prices. Thus, competition was created, and, along with this, the post office was not the only pension provider. A competition was announced for delivery of pensions, starting with the first of July of this year. The Ministry of Welfare also asked that the pension providers have a certain amount of operating capital. Judging the results of the competition, it seems that there are three companies that are best qualified. After visiting the post office, I intervened in the competition results, because I felt that the post office must be given the larger share, although we should not allow a monopoly situation to be created again. The post office is a state institution, and if it is not allowed to make money by delivering pensions, and regulating tariffs, then we will have to give subsidies. And that also occurs in many countries. The post office delivers 90 percent, and these new pension delivery companies provide 97.5 percent of the pension services, and, in addition, perform product delivery. Later on, we considered the option of finding a compromise. The postal division has been enlarged quite a bit. Minister Gutmanis in the government has announced that everything had been settled and that there is no longer any problem. The post office is satisfied, because it has received more than one third of the job. Therefore, I was very surprised that the State Institution Chief Droiskis was waging, in my opinion, such a political campaign on television. The panic that pensions will not be received is unfounded. The money usually comes in the second half of the month, but pensions should be paid in the first. That is why banks, in particular, could alleviate this situation. In addition, pension recipients should become accustomed to the situation that their money remains in the bank, instead of being delivered to them. Pension recipients could pay their store bills using debit cards, the way it is done in many countries.

[I. Gailums] Tell us, please, what the real situation is with subsidies to farmers. Is the government getting ready to reduce them?

[M. Gailis] The International Monetary Fund, in its recommendations, suggested that we reduce the budget by 50 million. We still have to discuss this. I will support drastic measures to increase income, not involve the budget too much, decrease the number of administrative employees and ministry expenses, but not touch agricultural subsidies. That will be my standpoint. Naturally, the ideas presented by others will have to be reviewed. There are problems here, because people have invested money in cultivated seeds, pedigree livestock, count on receiving subsidies, and we cannot destroy their businesses. The fact that we can reduce a great deal in the budget is true. In a few weeks, we will have to confirm the budget in the Saeima.

[V. Krustins] How were you able to get that brave woman, Mrs. Samite, to agree to be the Minister of Finance?

[M. Gailis] Our Ministry of Finance has an entire brigade of women—Poca, Andrejeva, Sudraba. The wallet is now in the hands of women, as sometimes happens in families. Samite is determined, brave. And we didn't have many options, because we needed someone to run this kitchen.

[V. Krustins] How are you personally preparing for the elections?

[M. Gailis] I am working a great deal, donating my time to meet with people. I am considering working on inventories, promises, comparing what has been done, what hasn't. I have prepared a list of things to do before the elections. I have to review the bills, which I would like to see adopted as of the middle of August. Apparently, I will have two days per week to visit various districts and speak with the people. I now have to operate on a political level, because there is not enough time to accomplish any major reforms. I feel that I should take more advantage of personal appearance opportunities, publish more articles. Just now, Vita Terauds and I decided to publish a combined article on what has been accomplished by two state Reforms Ministers in two years. I am fully resolved to put maximal effort into the running start. The closest team is being mobilized. If I am to continue working in a similarly responsible position, then I will have to select a different speed. It is one thing to run a sprint, and another—a longer distance. If I have to consider three years, then I will have to allot my strength differently.

Recorded by A. Kundzins.

Photo caption: Maris Gailis: "We have made guarantees for 'Baltija', but have still not promised anything for the others, and that should be added on but have still not promised anything for the others, and that should be added on."

*Economics Minister on Relations with CIS Countries

954K0630B Riga DIENA in Latvian 9 Jun 95 p 2

[Article by Janis Zvanitajs, Minister of Economics of the Republic of Latvia : "Will Latvia Really Reintegrate with CIS?; Or How the Ministry of Economics is Being Characterized as a CIS Lobby by the Press."]

[FBIS Translated Text] Such a question, or approximately such a question came before me and my colleagues in the Ministry on May 30 of this year, upon reading an article with a similar title in the newspaper *Diena* by Guntis Rozenbergs.

The next question followed from the first: was the author of the May thirtieth *Diena* publication the same Rozenbergs —a professional journalist, who regularly writes about economic questions, and who, on April tenth of this year, wrote in *Lietiskaja Diena*: "Russia awarded us with the largest favorable trade regimen, for a period starting with June 1, 1994, when it issued the Ministry of Foreign Affairs note." At the same time, Rozenbergs noted that the realization of the regimen agreement, prepared already two years ago (actually, signed on the state level — J.Z.) occurred suddenly on Russia's part. And further, "Nevertheless, Latvia does benefit from the favorable regimen, because there is no dual customs duty, which would be imposed, if the mentioned status had not been awarded." In connection with the subject of Russian, there is still another quote from the April tenth article: "Russian gives preferential treatment to activities, if they come from Latvia accompanied by one of our state structures."

It seemed as if everything was obvious regarding the trade agreement relations between Russia and Latvia, and why the Ministry of Economics had selected an elastic approach and concluded goods supply protocols with **those CIS countries, where such protocols were still necessary, in order for enterprises in the Republic of Latvia to receive the necessary strategic raw materials within the former Union's quotas, as allotted per country** (the bold print is my own — J.Z.). *Furthermore, each* such protocol contained the legal specification that the supply of goods is initiated upon the signing of the said agreement (contracts) by the subjects in the managing enterprises. In this manner, the other party (the CIS country) is informed that Latvia no longer maintains the so-called state purchase order and the state is not held responsible for supplying a specified quantity of a specified product, because that is dependent on a business party's more or less successful cooperation, as well as the overall managerial and financial situation in the respective CIS country.

The honorable journalist Rozenbergs concluded his April tenth article as follows: "Therefore, our entrepreneurs and traders are interested in seeing that economic reforms in the CIS countries develop, because then, opportunities to conduct trade in a civilized manner will be greater." I agree, Mr. Rozenbergs, that will also happen, someday. But, at present, that is not the case. And that is why these supply protocols are being prepared, knowing quite well that the supply protocols will die a natural death, since this process is already under way.

However, completely incomprehensible is the honorable journalist's sudden and major change in opinion. After one and one half months, — on May thirtieth, Guntis Rozenbergs writes that the Ministry of Economics "is signing anarchistic and archaic trade agreements", "no agreements on trade and economic cooperation have been concluded with Russia", "the concluded agreement (with Ukraine — J.Z.) does not give (...) any reductions in customs duties or in payments of other countries' taxes." What follows is the complaint that Belorus has been sold 25 percent more RAF microbuses and six times more electric trains than was provided for by the supply protocols. It would seem that rejoicing should be in order.

Likewise, we should only be glad that raw materials, which the CIS countries classify as strategic, and which are distributed administratively on the governmental or even on the state's first person level, are being received by Latvian enterprises, to a large extent, thanks to these protocols.

If the journalist is in fact a professional and is well versed in the problem at hand, then he should know that the volume of exported agricultural production is determined by the Ministry of Agriculture and that the central banks are in charge of inter-bank agreements regarding payments to and from the CIS countries.

And now, Mr. Rozenbergs, with regard to the damage done by the Ministry of Economics. In your opinion, the Ministry of Economics is fooling our producers and traders. Before issuing such a statement, maybe you should have first asked the Ministry, itself, or its CIS countries division, as well as the entrepreneurs, which state institution can supply the necessary information on the economic situation for a specific CIS republic. The CIS countries division of the Ministry of Economics provides information on Latvia's production selling market, as well as the buying opportunities for raw materials and other goods in all twelve of the former republics of the Union. To a great extent, this data base is obtained by preparing the mentioned supply protocols. Will you still reaffirm that this is not a search for a selling market? In my opinion, this is a marketing function, in its purest form. Access to the markets is insured, because the trade agreements signed with all twelve CIS countries anticipate a fair regimen principle. Nevertheless, I must agree with Mr. Rozenbergs, that the resolution of the trade question is divided among various institutions, which creates a certain duplication of functions and lack of coordination. I have expressed the Ministry of Economics' standpoint on this matter on various occasions, and therefore, I can only repeat it again — both internal and external trade questions must be under the supervision of a single state institution. And I feel that — it should be the Ministry of Economics. Interesting from the factual science viewpoint is also the statement that our Ministry is only cooperating with state enterprises, because ,as the authors writes: "state enterprise production is predominant in the supply protocols". In fact, this does not reflect the true situation of the matter, because, in accordance with the official State Property Fund data, the largest portion of capital shares in so-called state enterprises in Latvia consist of not less than 50 percent of statute capital, the greatest proportion of which is private capital. And supply protocols will also include private sector production, if there is a demand for such.

Naturally, you would like to know why there is no free trade agreement with our largest Eastern neighboring country. The Ministry of Economics, within the scope of its competency, is at work preparing an economic agreement, but the signing of an agreement on free trade is primarily a foreign policy matter.

The article by G. Rozenbergs leads me to believe that this time, the author used non-qualitative information sources, or that maybe his selected consultants were not particularly competent in researching the matter. I think that such an outwardly loud article, full of sensational revelations in connection with possible "internal enemies" would not have been written, if the honorable journalist would have first created an opportunity for himself to speak with specialists from the Ministry of Economics. Such carelessness on the part of an experienced journalist is not permissible. That is why the question arises — who does this benefit and who orders such articles?

*Border Guards Subordinated to Internal Affairs Ministry

954K0630A Riga DIENA in Latvian 7 Jun 95 p 3

[Article by Liga Laizane: "Transfer of Border Guard Function to Internal Affairs Ministry Accepted."]

[FBIS Translated Text] Riga, June 6. Tuesday, the Saeima Defense and Internal Affairs Commission, at its meeting, conceptually accepted transferring the border control function to the Internal Affairs Ministry. However, it was not in accordance with the transfer bill submitted by the Internal Affairs Ministry and accepted by the Cabinet of Ministers, but according to orders developed by the Commission itself.

The alternative variation developed by the Commission anticipated the transfer to occur in two phases. First, a border police will be created from the ranks of the Internal Affairs Ministry, which will receive control over the border and the border crossing points, involving possible cooperation among the police, immigration and border guard services, while the "green border" will remain under the control of the National Armed Forces. After the reform, during which routinely conscripted soldiers will be replaced by re-enlisted soldiers, the border guard brigade can turn over all border control functions to the Internal Affairs Ministry. In order for this to be realized, changes must be made to the laws on the national border and police.

Commission leader, Andris Ligotnis, explained that, in the past, there had been an agreement about such an order of transfer between the former Ministers of Defense and Internal Affairs, Valdis Pavlovskis and Girts Kristovskis. However, G. Kristovskis, at that time, had admitted that the Internal Affairs Ministry was not ready for such a transfer. "We are not overly convinced that the Internal Affairs Ministry is ready for this now, but the current Minister of Internal Affairs, Janis Adamsons, feels that they are able to do it," said A. Ligotnis, after the meeting.

The bill developed by the Internal Affairs Ministry and accepted by the government proposed that the border guards' military structure, as it stands now, including staff, armaments, and technical facilities, be turned over to the Internal Affairs Ministry. A. Ligotnis feels that such a transfer would not change anything in the guarding of the border, with the exception of the superior in command.

The Commission's alternate variation for changes in the law has not been submitted to Saiema's presidium, because the financial sources for expenses involved in the transfer have not been identified. If the financial income reports from both Ministries show that the transfer can be carried out, then the Saeima could review the changes in the respective laws, in the order of urgency, within three weeks. A. Ligotnis predicts that the transfer could start by the Sixth saeima elections, which will take place this Fall.

*People's Accord Party Political Platform

954K0628A Riga NEATKARIGA CINA in Latvian 1 Jun 95 p 5

["From the Speech by People's Accord Party Chairman Janis Jurkans"; place and date not given]

[FBIS Translated Text] Many of us did not start our active involvement in politics in 1993, with the formation of the pre-election coalition "Accord for Latvia—Rebirth of the National Economy," but have been together since the founding days of the National Front, and actively participated in the first National Front congresses, expressing support for Latvia's independence as a state, for democracy and freedom, even when doing so was still dangerous. Among us there are quite a few people who are not Latvian and citizens, but who have always supported the Latvian people's right to self-determination. At that time we in the National Front did not separate people by their national affiliations. Nor do we do so now. In the days of the barricades we did not try to learn the backgrounds of the people coming to the campfire. Likewise, we are not attempting to do so today. The main point that unites us is the conviction that peace and accord are in the interests of Latvia.

A Place in the Political Spectrum

There is a tendency to call us a leftist party. We are on the left only according to the viewpoint which certain reporters and political specialists drew from our party's position on national politics before the fifth Saeima elections. In fact, it is even more limited—to the aftermath attitudes against the citizenship law, which the Latvian Saeima adopted, respecting our request to turn down the quota principle.

Considering the public's negative position against everything called leftist at that time, and even often at present, this categorization is to a large extent propagandistic and tendentious. To give an example from current politics—in voting for the bill, which determines the possibilities of obtaining real estate in a city, it was precisely the most motivated members of the People's Accord Party (PAP), much more so than the highly acclaimed "liberals," who strongly supported a free real estate market, one of the major conditions for the development of a true free market economy. In this specific case we were, economically speaking, the party furthest to the right in the Saeima!

In economic policies, PAP recognizes the values of classical liberalism—freedom of markets and individuals, the effectiveness of competition and a free market, the need to restrain monopolistic activities—as well as the social stability protected by Social Democrats, which can be realized by certain income equity and caring about those who are unable to provide for themselves.

We feel that the state must take responsibility for its inhabitants during the changeover period from socialist to market production activities. Our principle sounds like this: "Freedom for those who can; support for those who cannot."

In Latvia's multicolored political spectrum, which will represent us in the parliament and outside it, we must be able to include those with whom we will never be able to find a similar political language, as well as those who are closer to us, and with whom we work and will continue to work. These are the TPA, DP "Landlord," Social Democrats, in many respects, the Latvian Way, which considers itself to the right of center. In such a case, we could call the PAP to the left of center. To the left, but not too far off to the left, just about where the heart is.

At a Time in the World, in Latvia

Our party's congress is taking place at a time just after the celebration of Latvia's fifth anniversary of renewal as a state, and 50 years after the defeat of fascism. Latvia is a full member of the United Nations, the OSCE, and the Council of Europe. An agreement will soon be signed with Europe, and we will become a European Community associate member nation.

It should be realized that the true guarantee of Latvia's independence as a state is not merely through "integration into Europe," which some see as a mechanical act—let's just sign a few of these little agreements, and Latvia will become a land of milk and honey, while NATO tanks, at a moment's notice, will be ready to take up position in Zilupe. Latvia's guarantee of independence can only be attained when we have a European society here, in Latvia, and this is precisely how integration into Europe should also be interpreted.

What is a European society? First of all, it is a tolerant and stable society, a humane national and political accord society.

Let us take a look at ourselves through a European's eyes: We are waging a fish war with Estonia, arguing with Lithuania about nonexistent, for the time being, oil and boundaries, and have an unsettled border problem with Russia. In the five years of independence, relations with Russia have deteriorated. During this time there have been no official visits, either to Russia or from Russia, with the exception of our president's trip to sign the agreement. And where have our ministers and prime ministers not travelled, except that they have not been to our neighbors in Russia even once. We have the worst possible trade flow, in that while Latvia uses Russia's oil, metal, and coal, the majority of Latvian production continues to be sold on the Eastern market.

If we are talking about the Eastern factor, we must mention the saddest fact: In our relationship with the East, the irrational factor, the mythical factor, has sprung up and is growing, and it is the most difficult phenomenon to correct. In Latvia's primitive depths of consciousness there already exists the ideology of bravado and revenge against the stupid, lazy, hungry bear, which threatens us from the East. While in Russia, on the same level, the myth has already sprung up about the Latvian—fascist, and Latvia—provocateur, the myth about how we are existing on the riches of Russia's earth—milking Russia's cow and still managing, from time to time, to kick it. And we select the most inappropriate times to do so.

At the very recently celebrated 50th anniversary of the defeat over fascism, which was acknowledged throughout the world, and which is practically a religious holiday in Russia, we were not participants. We went to the other side, organized an explosion in Skrunda, blew up a synagogue, published *Main Kampf*, hung mourning ribbons outside our buildings, turned over our official television to SS legionnaires, who were delighting over the fact that 10,000 German and Latvian lives were compensated for by 75,000 Russian lives. And this was all accompanied by the discussion of whether or not the contents of the KGB sack should be published; there were the shameful explanations to the press of who will attend the Ukrainian, Belarusian, and Russian ambassadors' organized receptions.

We must not be allowed to forget our tragic past. But, in the name of the future, we must understand that we have at least three new nations in the East, who, together with Latvia, collapsed the USSR empire, and today, with their remaining strength, are attempting to save and preserve their democratic landmarks. We cannot make them accountable for Stalinism—these nations are only five years old. We do not have to help their internal pro-imperialistic opposition—it is sufficiently threatening by itself.

Does the European house need an inhabitant who breaks windows, complains about his difficult fate, shows his past wounds, and expects gifts? In addition, he still does not understand the rules of European life.

We know what sort of scandal occupational prohibitions provoke in Europe. Why would Europe need a new nation which has over 60 legal distinctions between citizens and noncitizens, 23 of which are—occupational prohibitions.

Europe does not want us to link social and economic rights to citizenship. And we will have to abide by this if we want to be a part of Europe.

The actions by the Citizenship and Immigration Department (CID) are insulting and disrespectful to state officials.

The "all-powerful department" has already been run by various ministers, has ignored hundreds of court decisions, and has caused international shame for Latvia—80 percent of the complaints about civil rights violations in Latvia are directly related to the CID's activities. Three of the largest Civil Rights Commissions, since 1992, have noted serious civil rights violations specifically in this institution's activities.

Concerning Foreign Policies

The basic direction of the Ministry of Foreign Affairs—unity with Europe, Baltic unity, good relations with

Russia—is correct. However, the wrong choice of means can discredit the most exalted goals.

In my opinion, the road to Europe goes through two intermediate stations. The first—Baltic unity. Attaining this unity is a criteria of our maturity. The second stop—constructive and good-neighbor relationships with Russia. Only by moving ahead in this manner can we come to the end point and become an equal among equals in today's world.

Our foreign policy's basic problem is contradiction—from one side we are reaching towards Europe, from the other side we do not wish to play by the rules accepted in Europe. The West wants to help us and is constantly giving us tutoring lessons. The question is—do we want to learn?

What Have We Done for the Good of Latvia?

Naturally it is quite hard to be productive in the opposition. Nevertheless we feel that, in the activities in a two-year period in the fifth Saeima we have been successful in raising public benefits by 14 million lats, and the largest accomplishments in this area were achieved by our faction's deputy, the chairman of the Public Affairs Commission, Mrs. Kuprijanova.

Forced apartment privatization is not occurring.

The citizenship law was adopted without naturalization quotas. Very recently we were successful in changing the citizenship law, so that Russia's Latvians were included in the citizenship body.

Our faction's lawyers, under the leadership of Mr. Datavs, developed a bill in 1993 on former USSR citizens who do not have Republic of Latvia citizenship status. We submitted it for review by the Saeima, and now, finally, it has been adopted. Seven hundred thousand Latvian residents learned their precise basic rights and obligations. We were also able to ensure that they will not have to obtain a residence permit every year.

We started the procedure to revoke the discriminating occupational prohibitions against citizens of other nations.

The center forces forum was formed, based on our initiatives, and its major achievement is that in the summer of 1994 the national block government was not supported in the Saeima.

What Have We Not Done?

We have still been unable to get the Declaration on Public and National Reconciliation adopted. The declaration is not only an invitation to live amicably, as some may vulgarize it. In our viewpoint, its adoption would create a positive environment for Latvia's political, economic, and social development. Thus, Latvia's independence as a state would be reinforced. Such a reconciliation measure was taken by Spain at one time.

The reconciliation declaration also provides a settlement for the unfortunately famous KGB sack matter. And I never stop asking myself the question: Why do we not want to help ourselves? We submitted this declaration draft to all of the Saeima factions. Unfortunately, the loudest rejection came from the Latvian Way, despite the fact that quite a number of its members have been subjected to humiliating court procedures, which are unable to prove anything. These court processes did show that we remain dependent on those forces which are against our freedom and independence. If we truly wish to free ourselves from this dependence, we must draw a very thick line under our dramatic past.

We were unsuccessful in uniting all the parties represented in the Saeima on the basic principles of economic development, which would ensure the continuity of economic development for the good of Latvia's residents, independent of changes in the government.

We have been unsuccessful in getting the state to support the creation of new jobs, thereby decreasing social tensions.

We have been unable to ensure that legally residing citizens of other countries who have lived in Latvia for a longer time are able to vote in municipal elections, as is the case in various European countries, which would help lower tensions in society.

We continue to believe that no economic experiments can justify the fact that 80 percent of society's members live below the subsistence minimum level as it is presently defined in Latvia. Salaries and state job pensions must be commensurable to the subsistence minimum.

We often hear: PAP is a pro-Russian force, which does not care about the interests of Latvians. That is not true. Defending the interests of the Latvian people does not mean shouting slogans that are loud and pleasing to the ear. True patriotism is the very difficult job of accommodating society so that Latvians feel safe and well off in their historical birthplace, so that they may be able to make allies, not enemies, of the people of other nationalities living next to them. It is caring about Latvian as the national language. It is caring about the improvement of Latvians' demographic situation. These questions have always been at the center of our party's attention.

I want to remember those times when we, inhabitants of Latvia, regardless of nationality, walked through the streets of Latvia with red, white, and red flags, together singing "God bless Latvia!" And God also gave his blessing, and we regained our freedom.

Unfortunately, we forgot to erect, across from the Freedom Monument, the Responsibility Monument.

The Austrian psychologist, Victor Frankel, writes: "If the realization of freedom is not tied to responsibility, it risks turning into tyranny."

And God save us from tyranny.

*Leftist Political Coalition at Odds

954K0628B Riga DIENA in Latvian 10 Jun 95 pp 1,3

[Article by Nellija Locmele: "Conflicts in the Leftist Coalition: Ask that Bojars Be Permitted Candidacy in the Elections"]

[FBIS Translated Text] Riga, June 9—The Leftist Forces Coalition will start collecting signatures for a request to allow a former KGB officer, Juris Bojars, chairman of the Latvian Democratic Labor Party (LDLP), to be a candidate in the sixth Saeima elections. The order in which the party representatives will appear on the united election ballot has already been selected by a random drawing. However, a conflict has arisen between coalition partners, or more specifically—the LDLP and the Latvian Social Democratic Workers' Party (LSDWP)—because of which LSDWP board member Harijs Jordans has resigned from office as leader of the coalition's election center, and it is possible that LSDWP Chairman Janis Dinevics will stop his activities and withdraw his candidacy from the election.

The differing styles of leadership in the LDLP and LSDWP have created tensions and misunderstandings between the coalition partners, and in order to lessen tensions, the leader of the coalition's election center, H. Jordans, has resigned from office. In the LSDWP Central Committee board on Thursday, J. Dinevics also expressed his readiness to temporarily halt activities in his office as party chairman and to even withdraw from candidacy for the Saeima.

This decision was not accepted by some the board members, or by J. Dinevics' deputies, Laila Balga and Laimdote Perkone, who, because of this, are ready to resign. The final decision on the future activities of the LSDWP will be adopted on 17 June at the Central Committee meeting.

The Leftist Forces Coalition feels that the election law, which prohibits KGB state members from candidacy for the Saeima, is unfair to J. Bojars, who "actively participated in working for the return of Latvia's independence." Abstaining from the adoption of the decision was the LSDWP and the Social Democratic Women's Organization, which supports prohibiting former KGB agents from candidacy in the elections. The LSDWP will also not support J. Bojars illegal inclusion in the ballot. During the press conference the coalition's representatives were unable to explain how they expected to accomplish allowing J. Bojars to be a candidate in the elections, and even the habilitated Doctor of Legal Sciences J. Bojars refrained from commenting.

In the first position for the Leftist Forces Coalition in all districts will be the LBAS representative (Andris Silins, probably), and in total the LBAS will have 18 places, the Labor Union Central Bureau—17, the Social Democratic Women's Organization—18, the LSDWP—15, the deceived persons' party *Justice*—16, and the LDLP—also 16.

Lithuania

*First Quarter Foreign Trade Statistics Reported

*954F2696A Moscow SEGODNYA in Russian
28 Jun 95 p 4*

[Unattributed report: "Russia Is Lithuania's Main Trade Partner"]

[FBIS Translated Text] According to Lithuania's foreign trade indicators, in the first quarter of this year, 408.210 billion lits ($102.0525 billion) worth of goods, which comes to 22.2 percent of the total volume of Lithuanian exports, were exported to Russia (the figure was 28.2 percent during that same period in 1994), reported an associate of the statistics department of the Lithuanian government. According to him, 857.3877 billion lits ($214.3469 billion) worth of output were imported into the republic from Russia—36.2 percent of Lithuanian imports (the figure was 39.3 percent during the same period in 1994). At the same time, however, according to the department's data, in 1995 Lithuania is "reducing commodity turnover with the Commonwealth states and rapidly increasing trade with the countries of the European Union [EU]." In the first quarter of this year, Lithuania's exports to the CIS countries declined to 40 percent of all exported goods as compared to 46.7 percent in 1994, while imports from these countries to the Baltic republic came to 47.3 percent of all the imported goods (50.2 percent in 1994), emphasized the department representative. In this same period, the proportion of exports to the EU countries reached a level of 35.9 percent of Lithuanian exports (25.8 percent in 1994), while imports from the EU countries to the republic came to 35.8 percent (26.4 percent in 1994). In the first three months of this year, Lithuania exported 1.8409 trillion lits ($460.2 billion) worth of goods, while in the same period of 1994 it exported 1.,6681 trillion lits ($417 billion) worth of goods. During this period Lithuania imported 2.3663 trillion lits ($591.6 billion) worth of goods, while it imported 2.562 trillion lits ($640.5 billion) worth of goods during the first quarter of 1994.

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